



DEFENSE LOGISTICS AGENCY

THE NATION'S LOGISTICS COMBAT SUPPORT AGENCY



FY2024 AGENCY FINANCIAL REPORT

NATIONAL DEFENSE STOCKPILE
TRANSACTION FUND



DEFENSE LOGISTICS AGENCY

FY 2024 | AGENCY FINANCIAL REPORT

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND



THE DEFENSE LOGISTICS AGENCY (DLA) HEADQUARTERS

The Defense Logistics Agency (DLA) headquarters, also known as the Andrew T. McNamara Headquarters Complex, at Fort Belvoir, Virginia. The headquarters contains numerous offices responsible for supporting the overall agency. DLA provides supplies to the military services and supports their acquisition of weapons, fuel, repair parts, and other materials. The agency also disposes of excess or unusable equipment through various programs. ■ 8725 John J. Kingman Road Fort Belvoir, VA 22060-6221

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About the Agency Financial Report

The Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund (NDSTF) Agency Financial Report (AFR) provides comprehensive financial and performance data, enabling the President, Congress, and the American public to evaluate the organization's accomplishments and understand its financial results and operational functions. The AFR consists of DLA

NDSTF financial statements and other reports. The principal financial statements¹ have been prepared to report the financial position and results of DLA NDSTF's operations. The principal financial statements and accompanying notes have been prepared from the books and records of DLA NDSTF using guidance from the following applicable laws and regulations:

- ☑ Federal Managers' Financial Integrity Act (FMFIA) of 1982;
- ☑ Chief Financial Officers (CFO) Act of 1990;
- ☑ Government Management Reform Act (GMRA) of 1994;
- ☑ Federal Financial Management Improvement Act (FFMIA) of 1996;
- ☑ Reports Consolidation Act of 2000;
- ☑ Government Performance and Results Act (GPRA) Modernization Act of 2010;

- ☑ Payment Integrity Information Act (PIIA) of 2019;
- ☑ Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, as amended;
- ☑ OMB Circular A-123, Management's responsibility for Enterprise Risk Management (ERM) and Internal Control; and
- ☑ OMB Circular A-11, Preparation, Submission, and Execution of the Budget.

All information within this report pertains to DLA NDSTF unless specifically noted otherwise. The AFR consists of three primary sections:

Management's Discussion and Analysis

This section provides a high-level overview of DLA NDSTF, including DLA's history, mission, and organizational structure; DLA NDSTF's overall performance related to its strategic goals and primary objectives; financial analysis; management's assurance on internal controls; system analysis; compliance with laws and regulations; and forward-looking information.

Financial Section

This section contains the DLA NDSTF audit reports, management's response to the audit reports, as well as financial statements and the accompanying notes.

Other Information

This section details DLA's compliance with, and commitment to, specific regulations. It includes the Summary of Financial Statement Audit and Management Assurances, management and performance challenges, and payment integrity reporting.

¹ Refer to the Financial Section Introduction for definition of principal financial statements.



CARRIER OPERATIONS

Navy Cmdr. Matthew Sevier observes as F/A-18 Super Hornets, attached to Carrier Air Wing 8, fly in formation over the flight deck of the aircraft carrier USS Gerald R. Ford, July 8, 2023. The Gerald R. Ford Carrier Strike Group is on a scheduled deployment in the U.S. Naval Forces Europe area of operations, employed by U.S. Sixth Fleet to defend U.S., allied, and partner interests. **Photo by:** Navy Petty Officer 2nd Class Adonica Munoz



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MESSAGE FROM THE DIRECTOR

It is my honor, on behalf of the Defense Logistics Agency (DLA), to present the Fiscal Year (FY) 2024 Agency Financial Report (AFR) for the National Defense Stockpile Transaction Fund. This is DLA's first AFR to receive an unmodified ("clean") audit opinion in its history, a monumental achievement. As the Nation's Logistics Combat Support Agency, DLA operates across the global landscape, providing logistics support to warfighters as they face adversaries across the continuum of conflict. Embedded with the combatant commands, DLA's workforce ensures the readiness and lethality of the U.S. Armed Forces from tactical to strategic levels.

To meet the demands of today's transformative era, characterized by the contested logistics environment, DLA must transform by innovating and enhancing its ability to support the Nation's warfighters. We are transforming our thinking, actions, and operations to generate greater readiness and provide innovative, state-of-the-art solutions for today's warfighters. DLA will continue enhancing its capability to deliver agile, adaptive, and resilient logistics support, solidifying its indispensable role within the warfighting team.

While aggressively transforming our logistics processes, we are equally committed to elevating and refining our financial reporting standards. Our comprehensive audit roadmap aims to drive significant process improvements, fortify financial management practices, and enhance monitoring and oversight capabilities. This achievement is a steppingstone on the path toward a clean opinion on the DoD consolidated financial statements. We will apply the lessons

learned on this journey and integrate artificial intelligence into our systems to complete our remaining objectives. A transformational integration of modern technology is essential to scale this success to our more complex business units.

DLA operates the National Defense Stockpile (NDS) in a manner that mitigates financial risk and minimizes the Nation's risk from dependence upon foreign or single sources for strategic and critical materials in times of national emergency. DLA's success depends on timely, accurate, and reliable data, spanning both business and financial operations. During this financial statement audit, the auditors highlighted challenges with our information technology systems, and we overcame those challenges to reach this unmodified audit opinion. Our strong financial foundation and precise financial support drove our success.

I am deeply honored to serve as the 21st Director of DLA and to work alongside the passionate and dedicated team. With this report, we solidify our commitment to supporting our warfighters and our Nation through efficient, accountable resource management.

Mark T. Simerly,
LTC, USA
Director

“ ”

TO MEET THE DEMANDS OF
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RESPONSIBILITIES TO OUR
NATION'S WARFIGHTERS.

WARFIGHTERS ALWAYS



NDSTF FY2024

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am proud to join the Director in issuing the Fiscal Year (FY) 2024 National Defense Stockpile Transaction Fund (NDSTF) Agency Financial Report (AFR). This is the first AFR that the Defense Logistics Agency (DLA) has received with an unmodified audit opinion. With great pleasure, we celebrate this incredible achievement in presenting the financial statements for NDSTF. This opinion was the result of a strong partnership between the financial community, including our accounting providers, the Defense Finance and Accounting Service; the Strategic Materials Management team; and DLA's Information Technology professionals. This AFR provides valuable insights into the overall financial operations, accomplishments, and challenges of the agency. The DLA remains committed to delivering services that ensure value, efficiency, and effectiveness, while also demonstrating outstanding stewardship to protect against fraud, waste, and abuse in every program we manage.

The DLA enterprise efforts include initiatives to improve financial operations, information system solutions, and risk management to enhance the value provided to the warfighter and our partners. We are so thankful to Congress for including section 1413 in the FY 2024 National Defense Authorization Act which established our opening balances for fund balance with treasury and budgetary resources. This legislative victory, spearheaded by the DLA Deputy



Chief Financial Officer (DCFO), is a model other DoD components may follow when no other viable alternatives exist. The DLA continues to focus efforts and resources on upgrading financial and operational systems, remediating audit findings in areas with the greatest impact on the financial statements and improving financial data and internal controls to achieve another unmodified audit opinion for the working capital fund.

As the DLA continues to evolve, we will learn and use that knowledge to improve, reform, and protect our business operations and financial processes. One of our highest priorities is to provide enhanced financial management to identify and address risks, successfully overcome challenges, and implement actions to remediate material weaknesses. Our commitment to fiscal stewardship is paramount in supporting the warfighter and demonstrates prudent use of the American taxpayer funds entrusted to us.

WARFIGHTER ALWAYS!

Susan Goodyear,
Director, DLA Finance
Chief Financial Officer



DEFENDER '24 TESTS DDX EUROPEAN THEATER

DLA Distribution Expeditionary Material Examiner and Identifier Matthew Caldwell uses a variable reach forklift to maneuver a shipment load into a deployable AirBeam shelter during DEFENDER 2024 at Army Depot Germersheim in Germany May 13. The prior service airman with nine years of DLA experience is part of the DDX team based out of the agency's San Joaquin site in Tracy, California. **Photo by:** Jake Joy



AGENCY FINANCIAL
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SECTION 1



MANAGEMENT'S DISCUSSION AND ANALYSIS

SECTION 1

Management's Discussion and Analysis

IN THIS SECTION:

- 4 Mission and Organizational Structure**
 - 10 Performance Goals, Objectives, and Results**
 - 21 Analysis of Financial Statements and Stewardship Information**
 - 26 Analysis of Systems, Controls and Legal Compliance**
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SECTION 1 Title Page Image Captions + Credits (listed clockwise)

1. AGENCY'S CULTURE AND DATA OPPORTUNITIES HIGHLIGHTED AT DIRECTOR'S TOWN HALL

Defense Logistics Agency Director Army Lt. Gen Mark Simerly speaks during his first global town hall at Fort Belvoir, Virginia, May 16, 2024. DLA Vice Director Brad Bunn and DLA Senior Enlisted Leader Air Force Chief Master Sgt. Alvin Dyer also addressed the workforce. **Photo by:** Chris Lynch

2. SOUTHERN SEAS

Navy Seaman Davion Thompson pulls fuel hoses aboard the USS George Washington during Southern Seas in the Atlantic Ocean, May 14, 2024. The exercise is designed to enhance capability, improve interoperability and strengthen maritime partnerships. **Photo by:** Navy Petty Officer 3rd Class August Clawson

3. DLA ENGINEERS VISIT 121ST AIR REFUELING WING

Tech. Sgt. Lane Spelman, a crew chief with the 121st Air Refueling Wing at Rickenbacker Air National Guard Base, Ohio, explains various aircraft components in the cockpit of a KC-135 Stratotanker undergoing phase inspection and maintenance to Nicholas Bloom, an electronics engineer with Defense Logistics Agency Land and Maritime Electronics Product Test Center. **Photo by:** Arthur Hylton/DSCC

4. REPAIRING OF FUEL TANKS

Construction workers from Structural Associates Inc., East Syracuse, New York climb down a fuel tank at Niagara Falls Air Reserve Station, New York. The project provides a workable fueling solution for the KC-135 Stratotanker mission at NFARS. **Photo by:** U.S. Air Force Staff Sgt. Kelsey Martinez

MISSION AND ORGANIZATIONAL STRUCTURE

History and Mission: A Short History of the DLA



PUBLIC AUCTION OF SURPLUS MILITARY ITEMS

Rows of Jeeps stretch to the horizon. The vehicles would be sold to veterans and auctioned off to the public during large war surplus sales conducted after World War II. **Photo:** courtesy of DOD



FEDERAL CATALOGUE SYSTEM

Defense Supply Agency Director Army Lt. Gen. Andrew McNamara visits the DSA offices in Battle Creek, Michigan, for the dedication of the Defense Logistics Services Center in February 1963. **Photo:** courtesy of DLA

The origins of DLA date back to World War II when America's military buildup required the rapid procurement of vast amounts of supplies. After the war, a commission headed by former President Herbert Hoover recommended the central management of items common to more than one military service. The Department of Defense (DoD) responded by assigning procurement responsibilities to individual services. The Army became the military's sole buyer of food, clothing, general supplies, and construction supplies; the Navy purchased medical supplies, petroleum, and industrial parts for every service; and the Air Force provided airlift services.

While this "single manager" system centralized wholesale stocks, it did not provide the uniform methods recommended by the Hoover Commission. On October 1, 1961, Secretary of Defense Robert McNamara eliminated this complexity by forming the Defense Supply Agency (DSA), which began operations on January 1, 1962.

The DSA faced its first real-world test one year after formation. Restricted to the continental United States, it was perfectly positioned to respond to Soviet Premier Nikita S. Khrushchev's placement of nuclear missiles on Cuba. The Agency supported the military by supplying fuel and photographic film and the Nation by providing fallout shelter material.

The DSA grew substantially following the Cuban Missile Crisis. In 1963 and 1964, it assumed control of additional warehouses and supply centers. In 1965, it consolidated contract management offices under its Headquarters (HQ). Through its Defense Contract Administration Services (DCAS), DSA oversaw most of the Nation's defense contractors, as well as companies manufacturing items for the National Aeronautics and Space Administration (NASA). In the summer of 1965, during the Vietnam War, the clothing and textile supply chain doubled its employees to produce enough warm-weather uniforms and jungle boots for the 44 battalions deployed by President Lyndon B. Johnson.

Warehouses increased hiring, adding shifts so they could operate on a 24-hour schedule. When the subsistence supply chain received permission to establish offices in the Pacific, it increased its numbers as well.

The DSA received additional responsibilities Outside the Continental United States (OCONUS) in the last years of the war. In 1972, it started conducting property disposal overseas and oversaw the worldwide procurement, management, and distribution of bulk petroleum. In 1973, it began providing food to mess halls and commissaries in Europe. At the same time, the Agency became involved in foreign military sales (FMS), including repair parts for the products sold to foreign partners.

On January 1, 1977, DoD recognized this expanded mission of DSA and renamed it DLA. DLA's mission is to deliver readiness and lethality to the warfighter and support our nation with quality, proactive global logistics through innovative, adaptable, agile, and accountable means. DLA leans forward to address new challenges that threaten our global environment.

Over the next decade and a half, DLA demonstrated its acquisition prowess by acquiring ready-to-eat meals; filling the Nation's Strategic Petroleum Reserve; and providing parts for the F-16 Fighting Falcon, the most manufactured fighter jet in history.

In 1986, DLA grew in purpose and scope when Congress designated it a combat support Agency. In 1988, it became even more important to DoD when the General Services Administration (GSA) transferred the oversight of strategic materials. The following year, the Department consolidated nearly all contract administration activities under the Agency. To handle the increased workload, DLA elevated DCAS to a command: the Defense Contract Management Command (DCMC). A robust contract management capability proved indispensable after Iraq invaded Kuwait in 1990. While DCMC revitalized an industrial base weakened by the end of the Cold War, the rest of the Agency housed, fed, equipped, and fueled a 500,000-person force in an austere land.



EXCESS WAR SUPPLIES

The contents of a WWII machinist's tool kit, laid out to provide potential buyers with an example of the many surplus items available to the public during large auctions of excess war supplies. **Photo:** courtesy of DOD

The Agency continued reorganizing after troops returned home. In April 1990, DoD gave DLA the mission of overseeing services' distribution depots. In March 1993, the Agency reengineered its HQ so only six organizations, rather than 42, reported directly to the Director. In 1995, as a result of Base Realignment and Closure (BRAC) 88, DLA HQ moved from Cameron Station, VA to Fort Belvoir, VA. In the mid-1990s, as a result of BRAC 93, the Agency merged its Defense Electronic Supply Center in Dayton, OH with its Defense Construction Supply Center in Columbus, OH and called the consolidated center Defense Supply Center Columbus (DSCC). As part of the same BRAC, the Defense Personnel Support Center collocated with Defense Industrial Supply Center in northern Philadelphia to form Defense Supply Center Philadelphia (DSCP). Finally, Defense Automated Publishing Service (formerly Defense Automated Printing Service), transferred to the Agency in October 1996.

The DLA rose to meet new challenges in the new millennium, from responding to the terrorist attacks in 2001 to supporting the Nation's efforts to fight COVID-19. The Agency responded rapidly to terrorist attacks in 2001, providing logistical support to multiple commands in Operation Enduring Freedom (OEF). For the next thirteen years, it strengthened lines of communication, provided material for base construction, provisioned dispersed units, and disposed of equipment.

When the U.S. launched Operation Iraqi Freedom in March 2003, DLA processed 6.4 million requisitions worth more than \$6.9 billion, provided 180.5 million field meals, supplied nearly 2.0 million humanitarian daily rations, and sourced more than 3.0 billion U.S. gallons of fuel. It continued to serve customers through the surge, surge recovery, and withdrawal.

In addition to military missions, DLA is also involved in international humanitarian missions. In September 2014, it helped the U.S. Agency for International Development combat the deadly Ebola virus in West Africa, not only providing material but also developing the sustainment footprint. In the later part of the decade, DLA delivered disaster relief to Haiti and the Southeastern U.S., sustained Iraqi and Syrian refugees, helped the U.S. Forest Service fight fires, and provided resources to secure the Nation's southern border.

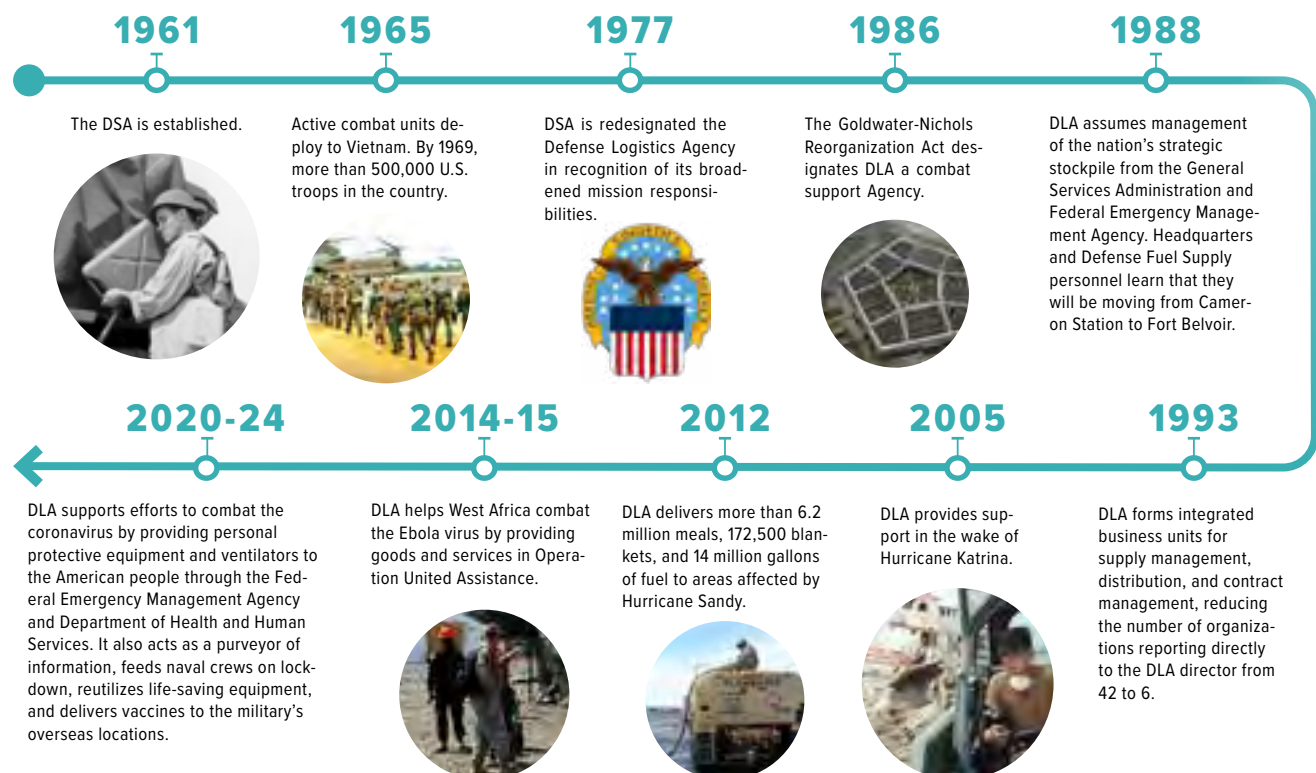
The DLA also supported humanitarian and relief missions domestically. In August 2005, it offered food, fuel, and housing to the many Louisianians displaced by

Hurricane Katrina. In October and November of 2012, it offered the same services to victims of Hurricane Sandy, one of the worst weather events to strike the eastern coast of the United States.

Since early 2020, DLA has supported the Nation's efforts to fight COVID-19, its most-sustained non-military mission in 60 years. In coordination with the Federal Emergency Management Agency (FEMA), Department of Health and Human Services (HHS), U.S. Army Corps of Engineers (USACE), and military hospitals, the Agency provided personal protective equipment (PPE), ventilators, food, construction material, and repair parts.

Coming out of the pandemic, DLA is adding readiness to its traditional efficiency and effectiveness pillars. In an unsettled world, the Agency has helped the Department of Defense secure its footprint in the Indo-Pacific region while supporting Israel in its fight against Iranian proxies and strengthening U.S. European Command in its efforts to blunt Russian aggression. As important, DLA is growing the defense industrial base through outreach and small business sponsorship while reducing costs through competition and long-term contracts.

History of DLA





Mission

The DLA reports to the Office of the Under Secretary of Defense (OUSD) for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment.

DLA manages the global supply chain, from raw materials to end user to disposition, for the components of DoD (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities. DLA sources and provides nearly all the consumable items America's military forces need to operate, from

food, fuel and energy to uniforms, medical supplies, and construction materials. DLA provides support around the clock and around the world to meet the needs of America's Armed Forces and other designated customers in times of peace, national emergency, and war. DLA supports DoD objectives and missions with involvement in the full range of military operations from participation with multinational forces engaged in large-scale combat operations, weapons and spares provisions, peacekeeping efforts, and emergency support to humanitarian assistance.



NORAD, NORTHCOM LEADERS DEMONSTRATE LOGISTICS DATA-SHARING TOOL

Leaders from the North American Aerospace Defense Command and U.S. Northern Command demonstrated a data integration and sharing tool for members of the Defense Logistics Agency's Agency Synchronization Operations Center. **Photo by:** courtesy of DLA / Chris Lynch

Organizational Chart

Below is DLA's organizational chart.

Appendix A contains further explanation of the Staff Directors and Field Activity Commanders (J/D) Codes.



Figure 1: DLA Organizational Chart

To optimize management and enhance operational efficiency, DLA encompasses three reporting entities, each governed by the J/D codes represented in Figure 1, above. DLA NDSTF is led by J7, DLA Acquisition, which is responsible for planning, organizing, directing, and managing the procurement and contract administration

functions for DLA acquisition in support of both internal operations and other supported activities. Below is an overview of the functions, missions, and strategies utilized by DLA NDSTF to accomplish its objectives.



DLA WELCOMES SIMERLY AS NEW DIRECTOR

Assistant Secretary of Defense for Sustainment Christopher Lowman hands the Defense Logistics Agency flag to its new director, Army Lt. Gen. Mark Simerly, during a change of responsibility at the agency's headquarters in Fort Belvoir, Virginia on February 2, 2024. Navy Vice Adm. Michelle Skubic, left, also retired after 35 years of military service. **Photo By:** Christopher Lynch

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

The mission of the National Defense Stockpile (NDS) is to provide for the acquisition and retention of stocks of certain strategic and critical (S&C) materials, and to encourage the conservation and development of sources of S&C materials within the United States. The major activity within DLA NDSTF is the acquisition and storage of S&C materials as part of managing and operating the Nation's NDS. The DLA Strategic Materials (SM) program is a distinct revolving fund which operates under the authority of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. §98, et seq.) (the Act). SM is a component of the Director of DLA Acquisition (J7) and is led by an Administrator and Deputy Administrator, who report to J7. SM performs analyses, planning, procurement, and management of materials critical to National security. SM serves clients through a unique combination of technical expertise, global/geopolitical S&C material supply analyses, management of existing critical materials, and broad range tracking of future critical materials.

The NDS Program strives to decrease and preclude a dangerous and costly dependency upon foreign sources or a single point of failure for supplies of such materials in times of National Emergency. SM operational goals for the NDS include ensuring efficient and responsible resource stewardship and the highest standards.

Along with providing operational oversight, and acquisition and retention of stockpile materials, SM provides for the conversion and upgrade of stockpile materials to prevent obsolescence, the recycling of strategic materials from end-of-life Government items and disposes of excess stocks through a public sales program. SM revenues are generated through public sales offerings to pre-qualified customers of stocks determined excess to DoD needs. The Stockpile Sales Program (SSP) provides operational funding for the NDS.

The Annual Materials Plan serves as notification to Congress of NDS material plans for a given fiscal year. The Annual Sales Plan (ASP) is the execution plan for disposals via the SSP and designates inventory available for sale. Receipts collected represent the source of funding for operational expenditures and new material acquisitions. Other financing sources include appropriations received for the acquisition and retention of certain stockpile materials, and activities pursuant to the Act.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The DLA has established performance assessments of its programs to evaluate the overall Agency's performance and improvement, based on the GPRA Modernization Act of 2010. The DoD produces an Annual Performance Report (APR) for all its components and will include its FY 2024 APR with its FY 2025 Congressional Budget Justification. The APR is located at: <https://dam.defense.gov/Publications/Annual-Performance-Plan-and-Performance-Report/>

The DLA Leadership has announced the release of the DLA Strategic Plan 2025-2030, titled "DLA Transforms: A Call to Action." The new strategic plan lays the foundation for the Agency's future direction over the next five years. The plan will be effective starting in FY 2025.

The Performance Goals, Objectives, and Results within this section are aligned to DLA's 2021-2026 Strategic Plan and provide a summary of DLA's five Lines of Effort (LOEs) and three Critical Capabilities (CCs). These goal-oriented objectives and forward-looking initiatives

are designed to strengthen DLA's efforts in sustaining Warfighter readiness and the Nation's responsiveness as described:

Lines of Effort: Key strategic priority used to link multiple objectives that when combined achieve an operational or strategic outcome.

Critical Capabilities: Agency enablers which are essential to accomplishing DLA's strategic objectives and LOEs.

Objectives: Specific goals to be achieved and are the most important actions essential to LOEs and Critical Capabilities - the "how" of the strategy.

The key initiatives that have the Director's specific emphasis in DLA's Strategic Plan for 2021-2026 are shown in the LOEs and CCs below.

Critical Capabilities (CC):

Success across all Lines of Effort

Lines of Effort (LOE):

Core strategic outcomes of DLA's Targeted Transformation

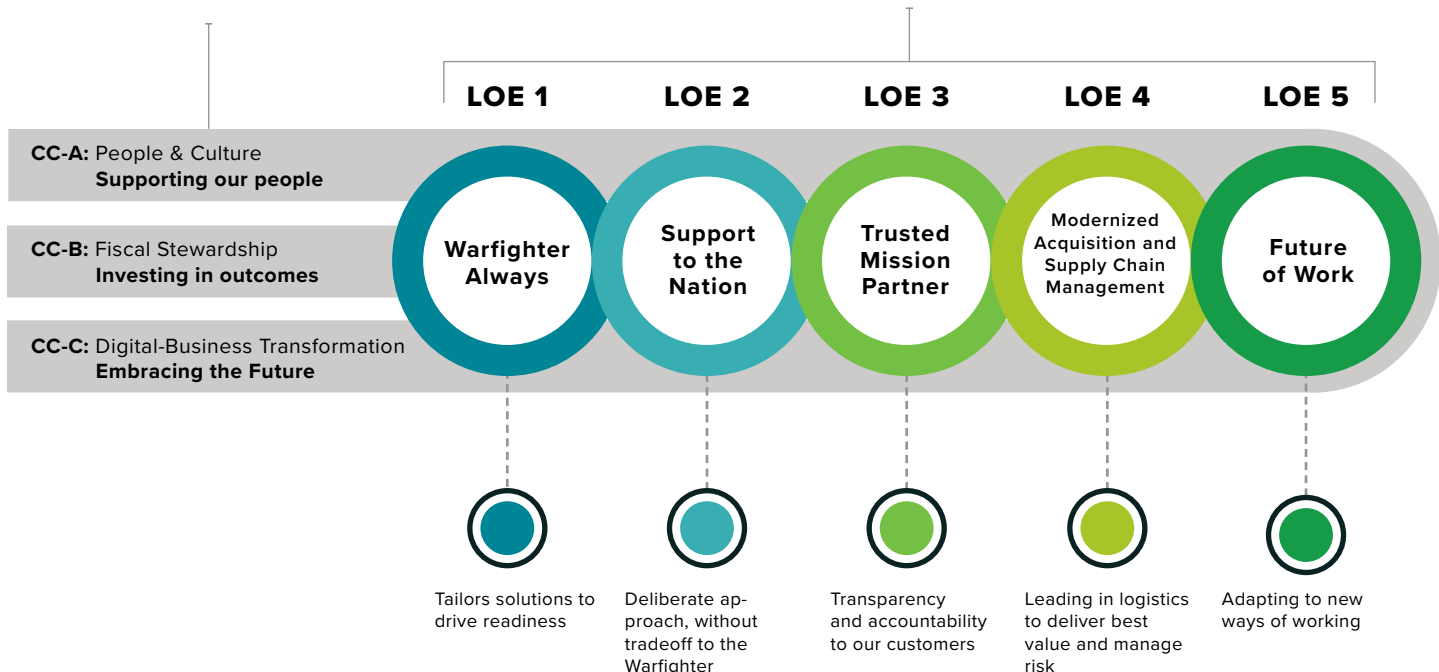


Figure 2: Lines of Effort and Critical Capabilities

The LOEs, CCs and respective objectives in the section below are derived from DLA's 2021-2026 Strategic Plan; however, specific objectives and key performance measures relevant to DLA NDSTF and have been identified accordingly in the Performance Measures section.

DLA Lines of Effort

Identify the most critical focus areas for DLA over the next four years. Each LOE has one or more underlying objectives with specific initiatives, milestones, and metrics that will support the execution of this transformation and have the greatest impact on our ability to serve the Warfighter and the nation.

LOE 1: Warfighter Always

OBJECTIVE 1.1: Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments

OBJECTIVE 1.2: Partner with customers at the whole-sale and retail levels to address Service-specific challenges and develop solutions

OBJECTIVE 1.3: Proactively support the DoD Nuclear Enterprise and Space Enterprise

DLA's support to the Warfighter is job one. It's the agency's core strategic priority. DLA must provide the right support in the right places at the right times.

The Military Services and Combatant Commands have unique needs and capabilities requiring customized solutions.

It's imperative for DLA to make smart, disciplined investments in innovative tailored logistics solutions to increase and sustain weapons system and warfighting readiness - including our Nation's strategic deterrent - to meet today's requirements and prepare for the future fight.

LOE 2: Support the Nation

OBJECTIVE 2.1: Implement a deliberate, enterprise-wide approach to Whole of Government support

Capitalizing on our scope, scale and skills in acquisition, storage, distribution, and surge capabilities, the Nation has increasingly called upon DLA to provide Whole of Government support. DoD is redoubling its commitment to a cooperative, whole-of-nation approach to national security that builds consensus, drives creative solutions to crises, to guarantee that we lead from a position of strength. As part of this effort, this LOE clarifies a deliberate approach to our Whole of Government mission with no cost trade-off to the Warfighter.

LOE 3: Trusted Mission Partner

OBJECTIVE 3.1: Implement customer-centric performance metrics and predictive problem-solving culture

OBJECTIVE 3.2: Provide greater financial transparency to customers

OBJECTIVE 3.3: Provide next generation customer service, including a customer feedback mechanism

Building trust begins with understanding our customers' priorities. Through a collaborative, data-driven problem-solving culture, we will pursue viable solutions to these critical challenges.

DLA will improve trust and transparency by enhancing customer-facing tools and software, formalizing customer feedback and increasing collaboration at all levels. We will align performance metrics and targets to ensure we are accountable to our customers.

LOE 4: Modernize Acquisition and Supply Chain Management

OBJECTIVE 4.1: Expand industry engagement to foster innovation and maximize value for our customers

OBJECTIVE 4.2: Improve the end-to-end post-award segment to enable collaborative customer support, increase responsiveness, and manage costs

OBJECTIVE 4.3: Develop a market intelligence capability to manage supply chain risk and drive best value

OBJECTIVE 4.4: Enhance our acquisition capabilities to improve readiness for contingencies

The global logistics environment is rapidly evolving and increasingly interconnected. DLA must work closely with industry partners to modernize and streamline our acquisition and end-to-end supply chains to deliver increased readiness and maintain our competitive advantage.

Through strong partnerships with our suppliers, and an enhanced focus on market intelligence capabilities, DLA will continue building a resilient and agile industrial base to reduce supply chain risk and drive the best value for our customers.

Given the increasing number of global contingencies, this will better position us and our partners to meet the accelerating challenges in an ever-changing world. At the heart of this LOE is the ability to increasingly harness and analyze business performance data to make

informed, risk-based decisions and develop actionable solutions to improve customer outcomes for routine and contingency operations.

LOE 5: Future of Work

OBJECTIVE 5.1: Redefine work models to enable our next generation workforce

OBJECTIVE 5.2: Assess DLA Contiguous United States (CONUS) facilities footprint to maximize space utilization

OBJECTIVE 5.3: Build skillsets of the future

Ongoing modernization efforts such as the use of mobile tablets, voice technology, autonomous guided vehicles and other advances to optimize warehouse operations all impact the future of work. DLA will continue adapting to these changes as it attracts and sustains a competitive workforce to drive increased productivity and employee satisfaction.

Creating an optimal work environment for employees that is modern, safe, secure, and well maintained will help increase retention and expand our access to talent pools.



DLA RESEARCH AND DEVELOPMENT

High-purity stabilized ceramic powders are produced by a chemical synthesis method. The powders yield a rare-earth-based ceramic thermal barrier coating made from yttria-stabilized zirconia, which DLA uses to achieve heat resistance and thermal control in jet engines and in the space program. **Photo By:** Nicholas Burlingame

DLA Critical Capabilities

The three Critical Capabilities are fundamental to our successful transformation. They intersect and support the five LOEs with specific underlying objectives, initiatives, and metrics.

- **CC-A:** People and Culture - Supporting our people
- **CC-B:** Fiscal Stewardship - Investing in outcomes
- **CC-C:** Digital-Business Transformation - Embracing the future

In these areas, DLA must be ready to act, adapt, reform, and embrace change to improve our organizational efficiency and effectiveness.

Critical Capability A: People and Culture

OBJECTIVE A1: People

Our most important asset as an Agency is our people. This capability aligns DLA's proven human capital strategies with our mission, LOEs, and objectives. Our ability to attract, develop, and retain a skilled and agile workforce is vital to our continued success.

OBJECTIVE A2: Culture

To achieve a shared vision with the Agency's Strategic Plan, all DLA organizations, employees and leaders must work together to fortify the culture, reward high performance, build connections, and prioritize safety of the workforce.

Critical Capability B: Fiscal Stewardship

OBJECTIVE B1: Auditability

OBJECTIVE B2: Cost visibility and cash management

OBJECTIVE B3: Investment to drive efficiency and effectiveness

In an increasingly resource-constrained environment we will drive cost effectiveness while maintaining

Service readiness. We must effectively manage our resources while making smart, transformative investments that increase value for our customers and taxpayers.

Through enhanced tools and capabilities, we will improve our cost and cash management for the DLA Working Capital Fund.

We will assess our work processes and the effectiveness of current internal controls to provide greater transparency, improve auditability and prevent fraud, waste, and abuse.

Critical Capability C: Digital - Business Transformation

OBJECTIVE C1: Transformational information technology capabilities

OBJECTIVE C2: Advanced analytics and automation

OBJECTIVE C3: Cybersecurity

OBJECTIVE C4: Technology governance

Technology is changing at an exponential rate, generating new possibilities in logistics and customer support. It is also increasing the capabilities of our competitors, the risks to our supply chains and operations.

We are focusing our Information Technology (IT) and digital capability investments on key areas that will enable us to enhance performance, reduce costs, and make more predictive and data-driven decisions.

We will transform our systems and processes to improve transparency, reliability, and security for our employees, customers, and suppliers.

DLA NDSTF PERFORMANCE MEASURES

Among the DLA performance goals and objectives described above, Critical Capability B: Fiscal Stewardship, specifically Objective B1: Auditability and Objective B2: Cost visibility and Cash Management,

are closely aligned with the mission and operations of DLA NDSTF. These performance objectives, along with the metrics used to measure their accomplishments, are discussed below.

Performance Measure 1: DLA NDSTF Roadmap to Auditability

Roadmap to Auditability is a performance measure that DLA determined to be key to the overall Agency's performance. This performance measure relates to the following objective:

OBJECTIVE B1: Auditability

Financial statement audits are crucial for promoting transparency, efficiency, and accountability within federal agencies, ultimately contributing to the effective and responsible stewardship of public resources. In FY 2024, DLA implemented a number of processes that significantly impacted the NDSTF roadmap to an unmodified audit opinion. This notable improvement results from a sustained effort to effectively implement the necessary changes in DLA NDSTF's financial management and reporting processes. Since the agency's first audit of DLA NDSTF in 2017, DLA has taken a two-track approach to overcome major impediments:

1. Identifying Root Causes and Addressing Findings:

DLA NDSTF continues to develop Corrective Action Plans (CAPs) to address Notice of Findings and Recommendations (NFRs).

2. Improving End-to-End Financial Processes: DLA NDSTF has focused on developing, improving, and refining the underlying end-to-end processes that support the compilation of its financial statements to

enhance adherence to Federal financial management guidance and U.S. GAAP.

To support these efforts, DLA has established various J codes, assigning specific responsibilities across the organization. These teams work collaboratively, both internally and with service providers, such as Defense Finance and Accounting Service (DFAS) and Defense Contract Management Agency, to effectively and efficiently implement CAPs. These steps are continuously being refined to improve the reliability and fair presentation of financial data reported in the DLA financial statements and the AFR.

Despite achieving an unmodified audit opinion, material weaknesses in controls persist. The corrective actions to address these weaknesses are ongoing. The following timeline summarizes key events that have driven DLA into a corrective action posture, showcasing its commitment to achieving high standards in financial management and reporting.

DLA Auditability Timeline continued on next page ►

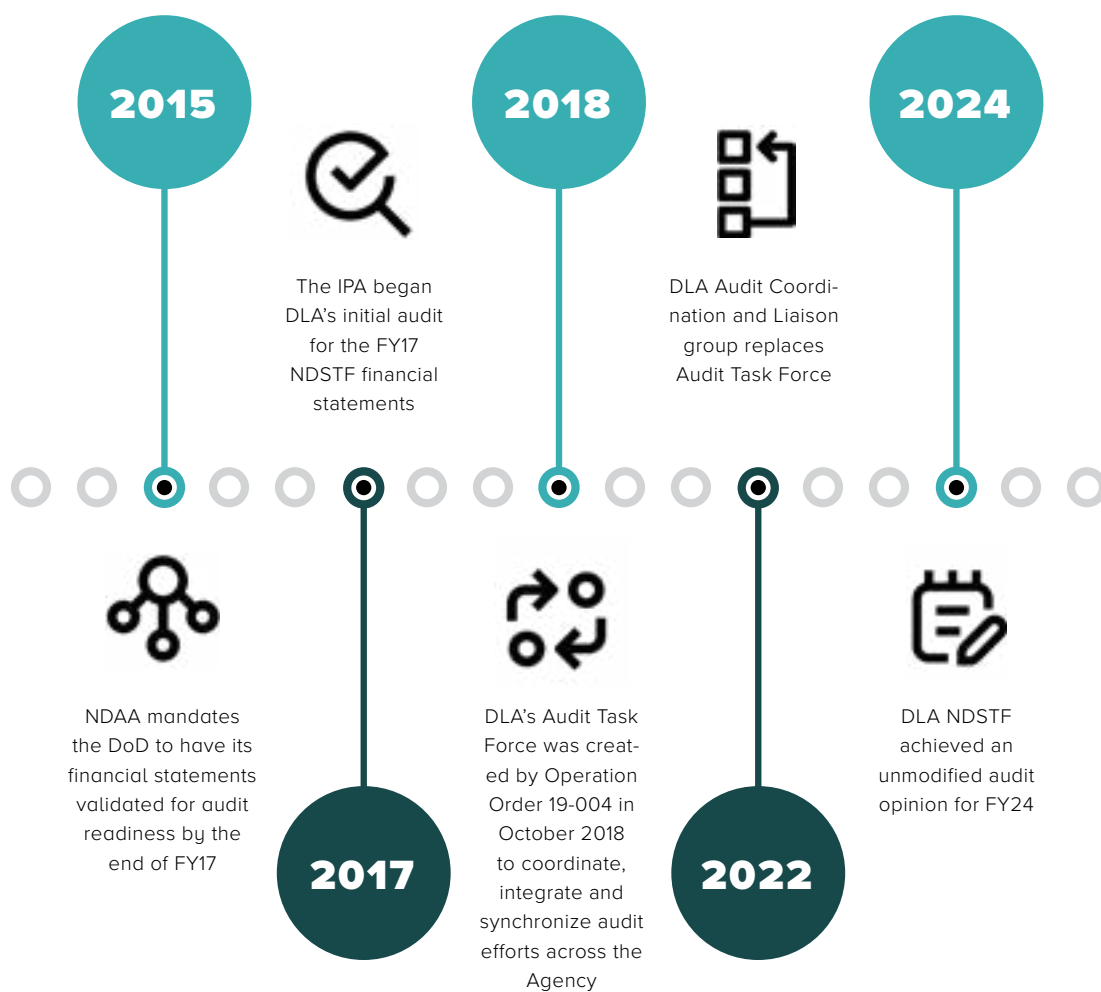


Figure 3: DLA Auditability Timeline



PERSONAL PROTECTION

Air Force Tech. Sgt. Carl Haynes puts on personal protective equipment to replenish liquid oxygen in a C-17 Globemaster III during Exercise Global Dexterity 230-2 at Royal Australian Air Force Base Amberley. **Photo By:** Air Force Senior Airman Makensie Cooper



EXPEDITIONARY ACADEMY

Members of the Defense Logistics Agency's joint reserve forces work to set the footings for an AirBeam shelter during the two-week Distribution Expeditionary Academy at DDLA San Joaquin, California. **Photo by:** DLA via John Johnson



Performance Measure 2: Contract Awards versus Contract Award Goal

This performance measure relates to the following objective:

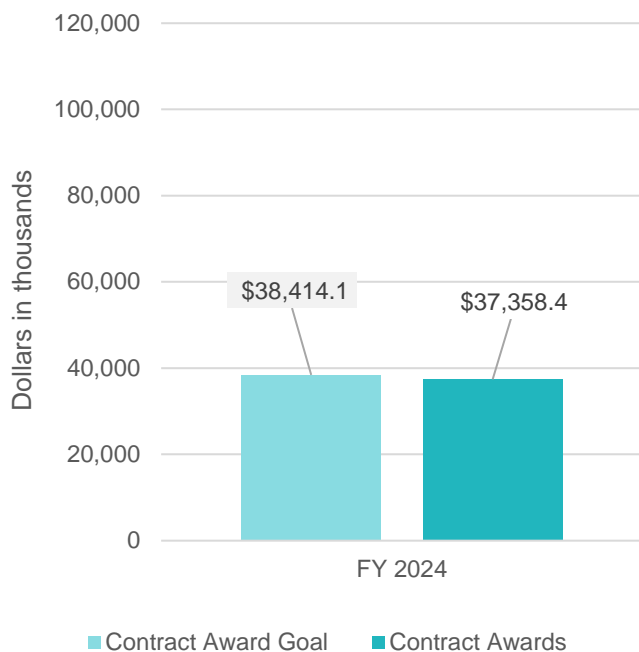
OBJECTIVE B2: Cost visibility and cash management

The SM manages the SSP to dispose of excess material via competitive public offerings. SM cash receipts keep the program self-funded, facilitating program operations in current and future years.

SM strives for accuracy in the projection of current year contract awards, working diligently to ensure the contract award goal is determined using all relevant factors, both domestic and global. Contract awards are provisional values agreed to between SM (the Government) and the customer. All the contracts signed during the year are typically completed within the fiscal year.

For FY 2024, the SSP conducted 37 competitive offerings for the year ended September 30, 2024 and awarded a total of 33 contracts. The 33 awarded contracts totaled \$37.4 million (provisional value), which is 97.3% of the \$38.4 million FY 2024 award goal. As reflected in the figure below, SM has demonstrated accuracy in forecasting, reflecting SM's dedication to meeting expectations to sustain operations.

SM Contract Awards versus Contract Award Goal



**Figure 4: SM Contract Awards
vs Contract Award Goal**



LENSES AWAITING A RECYCLING INITIATIVE

Germanium lenses awaiting a recycling initiative. Germanium is used in the lenses of night vision scopes. Inventory is currently stored at Hammond, Indiana. **Photo By:** Courtesy of DLA

Performance Measure 3: SM Actual Collections versus Anticipated Collections

This performance measure relates to the following objective:

OBJECTIVE B2: Cost visibility and cash management

The DLA NDSTF is apportioned Spending Authority from Offsetting Collections to fund operational expenditures and strategic and critical materials purchases. Therefore, auditability hinges on reliable and timely data over the movement of inventory, as it relates to disposals via public sales, and the corresponding accounting for the receipts of those sales.

All NDS stocks undergo comprehensive analyses and study, and evaluation of needs against a stringent set of criteria. The results of these analyses are critical for the authorization by Congress to acquire new materials and deem some current stocks excess.

The Act provides authority for a public competitive sales program, which protects against an avoidable loss to the Government, and avoids undue disruption to the usual markets. The sale of excess stocks requires current existing legislative disposal authority along with an Annual Materials Plan (AMP). The AMP provides for the ceiling limit quantity of any material sold in a given fiscal year. SM creates an Annual Sales Plan (ASP) to support the revenue projection as set forth in the Program Budget Review process. The ASP contains a mix of excess stocks, supported by the AMP believed to generate the anticipated collections authorized. Designated line items of inventory are made “available for sale” based on the ASP. These are the inventory items used to support sales offerings and generate revenue. Variances between the ASP and actual contract awards may occur due to market conditions. Collections are the result of execution under the sales contract terms. These collections serve to replenish and support revolving fund operations of the DLA NDSTF.

Congress typically provides disposal authority via the National Defense Authorization Act (NDAA). Disposal authority provides quantity by material that are authorized

to be sold but does not always provide for a specific expiration. All customers undergo a review to assess their financial responsibility and have to clear a set of criteria for participation in the SSP. SM conducts on-going outreach and canvassing to the approved customer base and marketplace to determine business outlook and forecasting regarding demand for materials in order to issue public sales offerings. Pricing tolerances are established in advance based upon fair market value assessments to aid in protecting against avoidable loss. Awarded sales and terms are documented in a bilateral sales contract.

In FY 2024, collections totaled \$37.9 million through September 30, or 98.6% of anticipated total FY 2024 collections of \$38.4 million.

Negotiated contracts can be either fixed priced or formula based, require pre-payment before release and with periods of performance greater than 30 days. In FY 2024, DLA awarded two types of contracts, fixed price and formula based, with periods of performance that vary in length. Basic Ordering Agreement (BOA) sales contracts are fixed price and require pre-payment and removal within 30 days. As of September 30, 2024, there were 29 BOAs and 4 Negotiated sales contracts awarded. As reflected in the figure below, DLA has effectively forecasted sales collections leading to high percentage of accuracy for this specific performance goal.

SM Actual Collections versus Anticipated Collections

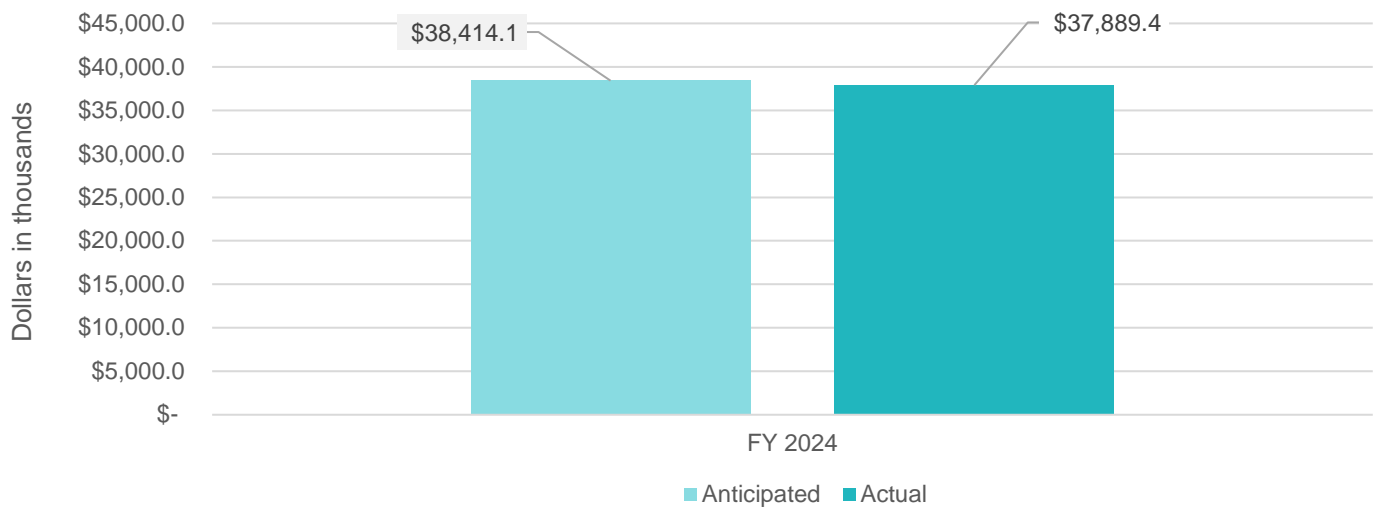


Figure 5: SM Actual Collections versus Anticipated Collections



LOGISTICS AND LEADERSHIP

During the Circle of Excellence Luncheon, Sue Goodyear, the DLA Comptroller and Senior Executive Service member, touched on several topics relevant to Contested Logistics and leadership on July 24, 2024, at the DLA Headquarters on Fort Belvoir, Virginia. **Photo By:** Courtesy of DLA

 **PACKING UP**

Air Force Staff Sgt. Tritobia Cash packs up a pantograph fueling system after completing a refueling job at Ramstein Air Base, Germany, Jan. 31, 2024. The in-ground system allowed Cash to fill an aircraft's nearly 32,000-gallon tank by herself, saving the need for multiple fuel trucks and airmen to accomplish the job. **Photo by:** Air Force Senior Airman Andrew Bertain



ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

This analysis presents a summary of DLA NDSTF's financial position and results of operations and addresses major changes and related activity in the amounts of assets, liabilities, net position, cost, revenue, budgetary resources, and obligations.

NDSTF OVERVIEW FINANCIAL POSITION

The principal financial statements of DLA NDSTF include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources. These principal financial statements and accompanying notes are included in the Financial Section of this AFR.

Preparing DLA NDSTF financial statements is a vital component of sound financial management and is intended to provide accurate, accountable, and reliable financial information that is useful for assessing performance, allocating resources, and for targeting areas for future programmatic emphasis. DLA NDSTF's management is responsible for the integrity and objectivity of the financial

information presented in the statements. DLA NDSTF is dedicated in its pursuit of financial management excellence.

A summary of DLA NDSTF's changes in key financial measures for FY 2024 is presented in the following Key Financial Measures table. The table represents the assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the gross costs of executing DLA NDSTF programs, less earned revenue. The Financial Results Summary section also includes an analysis of the significant financial statement line items presented in the Key Financial Measures Table.



LENS A HELPING HAND

Eric Deal of DLA Strategic Materials checks out a lens from Anniston Army Depot, Alabama. Germanium will be extracted from the lens and stockpiled until needed. **Photo By:** Nutan Chada



MINING MAGNETIC METALS

Workers excavate a site at Urban Mining Company's facility for manufacturing neodymium/iron/boron magnets in San Marcos, Texas.. **Photo By:** Courtesy of DLA

Key Financial Measures Table

As of and for the Year Ended September 30, 2024 (dollars in millions)

Condensed Principal Financial Statements

FY 2024

Financial Condition

Fund Balance with Treasury	\$	540.3
Inventory and Related Property, Net		415.8
Advances and Prepayments		1.3
General PP&E, Net and Other Assets		0.9
TOTAL ASSETS	\$	958.3
Accounts Payable	\$	21.4
Environmental and Disposal Liabilities		13.5
Federal Employee Benefits and Other Liabilities		2.9
TOTAL LIABILITIES	\$	37.8
Unexpended Appropriations	\$	175.8
Cumulative Results of Operations		744.7
TOTAL NET POSITION (ASSETS LESS LIABILITIES)	\$	920.5
Total Liabilities and Net Position	\$	958.3
Total Gross Cost	\$	63.2
Less: Total Earned Revenue		(37.9)
NET COST OF OPERATIONS	\$	25.3

Figure 6: Changes In Key Financial Measures

NDSTF Financial Results Summary

Assets - What DLA NDSTF Owns and Manages

The DLA NDSTF owns and manages assets to accomplish its mission as the leading U.S. Agency for the analysis, planning, procurement and management of materials critical to national security. These assets include Fund Balance with Treasury (FBwT), Inventory and Related Property, Advances and Prepayments, General PP&E, Net and Other Assets. As of September 30, 2024, DLA NDSTF's largest asset is FBwT, which represents \$540.3 million or 56.4% of Total Assets. FBwT consists of direct appropriations and collections

received from customers for excess materials, from which DLA NDSTF is authorized to make expenditures and pay liabilities. The next largest asset, Inventory and Related Property, represents \$415.8 million or 43.4%, which include stockpile materials held for sale and held in reserve for future use. This balance was impacted by DLA's implementation of SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.

Total Assets

As of September 30, 2024 (\$ in millions)

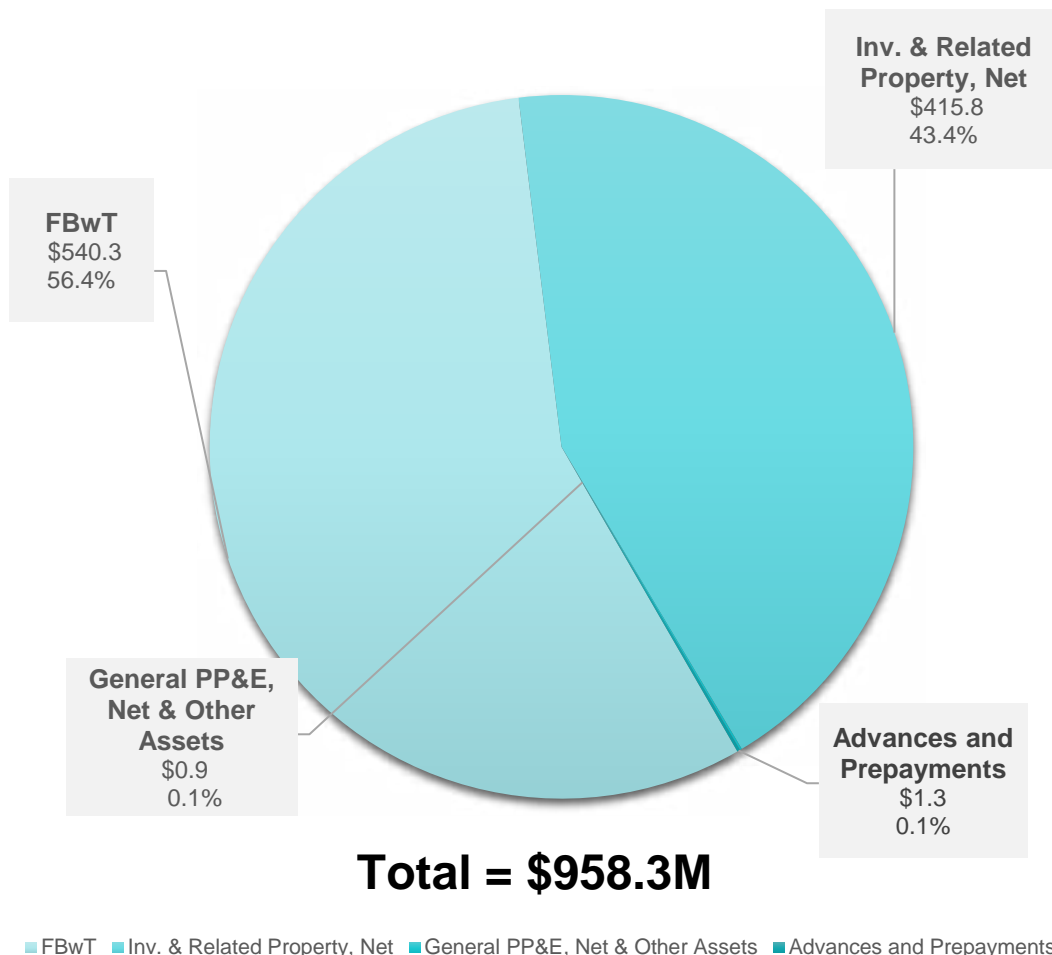


Figure 7: Total Assets by Component as of September 30, 2024

Liabilities - What DLA NDSTF Owes

DLA NDSTF liabilities are comprised of amounts owed: (1) to Federal and public entities for goods and services provided but not yet paid; (2) to DLA NDSTF employees for wages and future benefits; and (3) for Environmental and Disposal Liabilities (E&DL). The largest liability is Accounts Payable, which represents \$21.4 million or 56.6% of the Total Liabilities

as of September 30, 2024, and primarily consists of inventory acquisition costs. E&DL represents \$13.5 million or 35.7% of Total Liabilities as of September 30, 2024. Federal Benefits and Other Liabilities of \$2.9 million represent 7.7% of DLA NDSTF's Total Liabilities as of September 30, 2024.

Total Liabilities

As of September 30, 2024 (\$ in millions)

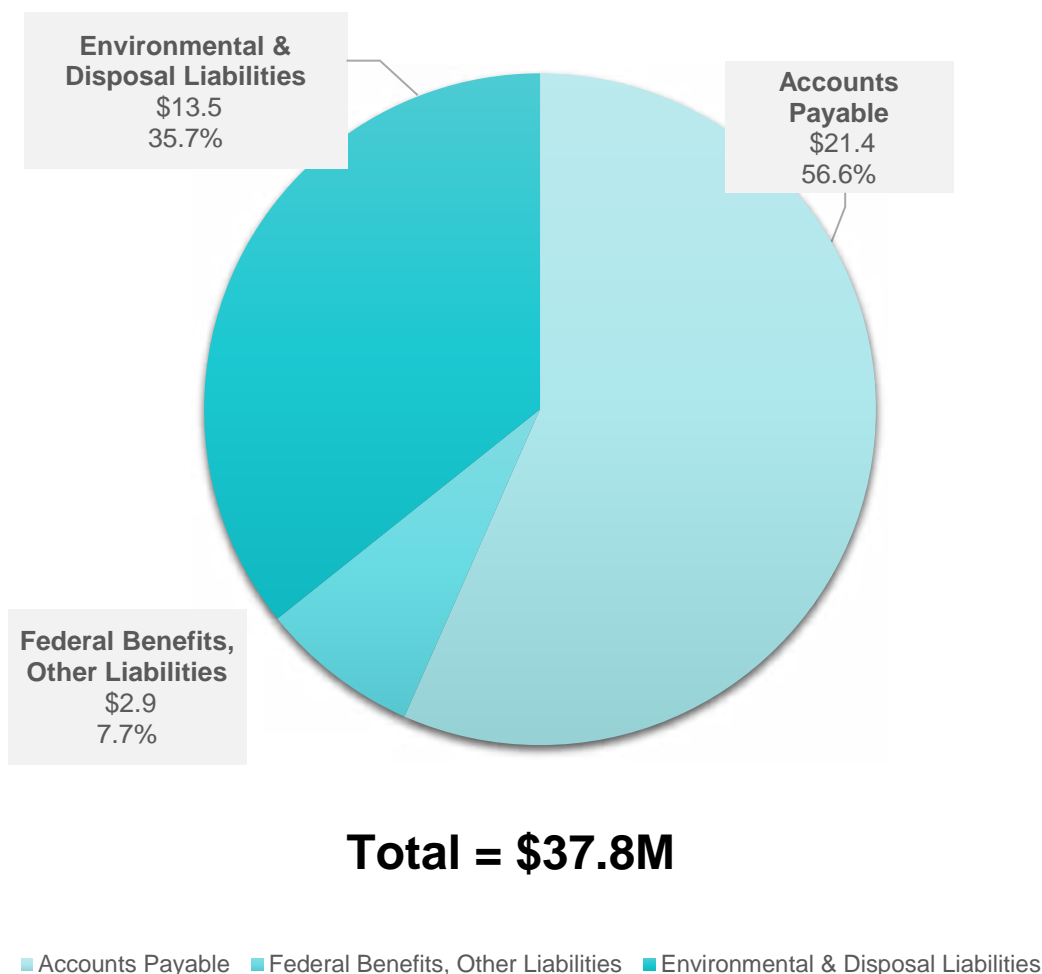


Figure 8: Total Liabilities by Component as of September 30, 2024

Net Position - What DLA NDSTF has Done Over Time

As of September 30, 2024, DLA NDSTF Net Position primarily consisted of Cumulative Results of Operations of \$744.7 million, representing the accumulation of revenue and expenses accrued over time. DLA NDSTF Net Position also includes Unexpended Appropriations of \$175.8 million as of September 30, 2024, comprised of appropriations derived from Public Law 118-47.

Net Cost of Operations - DLA NDSTF Net Operating Results

The DLA NDSTF Statement of Net Cost reports one program: Strategic Materials Operations, Readiness & Support. Net Cost of Operations represents the gross cost incurred by DLA NDSTF to conduct its operations less earned revenue, totaling \$25.3 million for the year ended September 30, 2024. Gross Costs is primarily driven by the costs of storing and managing NDS inventories and other administrative and business support service to operate the NDS program.

Budgetary Activity - DLA NDSTF Budgetary Resources and Obligations

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The budget represents the plan for efficiently and effectively achieving the strategic objectives to carry out the mission of DLA and to ensure that DLA NDSTF manages its operations in compliance with budgetary controls. Two key components of budgetary activity include Budgetary Resources and Obligations. Budgetary resources are funds available to DLA NDSTF to incur obligations, to pay for goods and services, and to sell products to customers. Obligations are balances for which there has been legally binding action during the year.

For the year ended September 30, 2024, Total Budgetary Resources are \$560.9 million, and Obligations are \$238.5 million. Budgetary resources include appropriations received under Public Law 118-47, and new obligations, including upward adjustments, relate to the procurement of stockpile materials.

Status of Budgetary Resources and Obligations

For the Year Ended September 30, 2024 (\$ in millions)

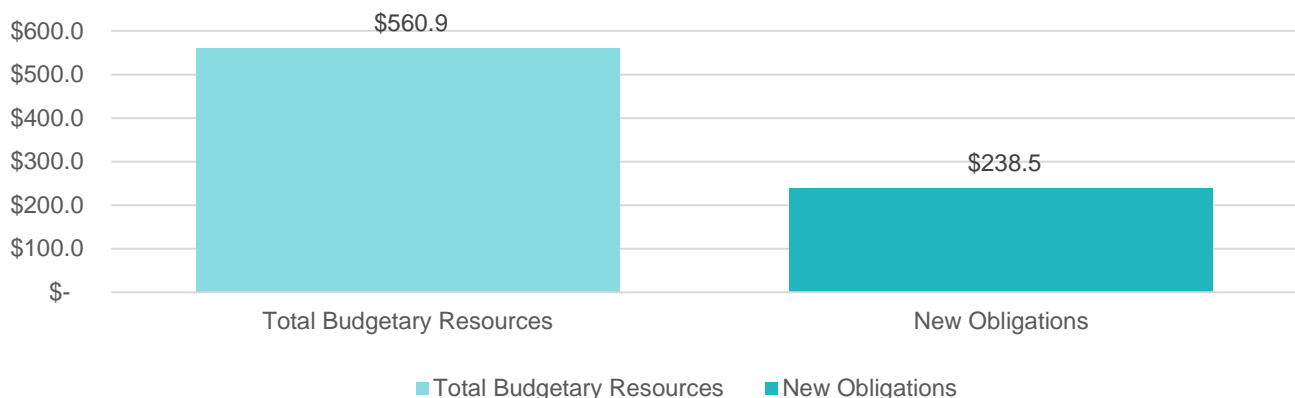


Figure 9: Total Budgetary Resources and New Obligations for the year ended September 30, 2024

Limitations of the Financial Statements

The DLA NDSTF principal financial statements² and accompanying notes are prepared to report the financial position and results of operations of DLA NDSTF as required by the CFO Act of 1990, expanded by the GMRA of 1994, and 31 U.S.C. § 3515(b). The statements are prepared from the books and records of DLA NDSTF in accordance with U.S.

Generally Accepted Accounting Principles (GAAP) and the formats prescribed by OMB. Report 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.

² Refer to the Financial Section Introduction for definition of principal financial statements.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DLA management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control*, the FMFIA (31 U.S. Code (U.S.C.) 3512, Sections 2 and 4), and the FF-MIA (Pub. L. 104-208), as prescribed by U.S. Government Accountability Office (GAO) Green Book, *Standards for Internal Control in the Federal Government*, are met.

The DLA Management Assurances Memorandum is prepared for all three Funds: WCF, GF, and NDSTF. The appendices referenced within the annual Statement of Assurance (SOA) below are OMB Circular A-123 appendices and are not included in the DLA NDSTF AFR.

Continued on next page ►



FUELED UP

Air Force Senior Airman Tabitha Burger tests jet fuel for particulates and water at Pease Air National Guard Base, N.H., Oct. 24, 2023. Petroleum, oils and lubricants specialists ensure the gas is clean and clear before entering fuel lines. **Photo by:** Air National Guard Tech. Sgt. Victoria Nelson



PALLET PICKUP

Navy Petty Officer 1st Class Richard Alvarez moves pallets of supplies aboard the USS Theodore Roosevelt in San Diego, July 25, 2023. **Photo By:** Navy Seaman Ikia Walker



Management Assurances



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

MEMORANDUM FOR UNDERSECRETARY OF DEFENSE (COMPTROLLER) (OUSDC)
DEPUTY CHIEF FINANCIAL OFFICER (DCFO)

SUBJECT: Management's Responsibility for Enterprise Risk Management and Internal Control

As Director of the Defense Logistics Agency (DLA), I recognize DLA is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. DLA conducted its assessment of risk and internal controls in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2024.

DLA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The Summary of Management's Approach to Internal Control Evaluation provides specific information on how DLA conducted this assessment. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over operations and compliance are operating effectively as of September 30, 2024.

DLA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The Summary of Management's Approach to Internal Control Evaluation, provides specific information on how DLA conducted this assessment. This assessment also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over reporting (both internal and external reporting) as of September 30, 2024, and compliance are operating effectively as of September 30, 2024.

DLA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The Summary of Management's Approach to Internal Control Evaluation provides specific information on how DLA conducted this assessment. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4;

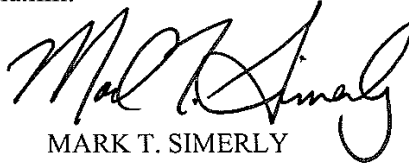
Federal Financial Management Improvement Act (FFMIA) of 1996, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2024.

DLA has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2024.

DLA continues to make progress towards implementing an effective OMB A-123 Program, conducting the first full assessment of entity-level controls as well as documenting and assessing key controls across DLA's end-to-end business cycles. DLA also made significant investments in Governance, Risk, and Compliance (GRC) capabilities this year, which will improve the oversight and monitoring of DLA's risks and controls. These activities are the foundation of a maturing A-123 program which seeks to continuously improve DLA's institutional capacity and ability to provide reasonable assurance in the future.

DLA is hereby reporting that a potential Anti-Deficiency Act (ADA) violation for FY 2023 was discovered during our assessments of the applicable processes. DLA is finalizing our investigation and will report any deficiencies as appropriate.

If there are any questions regarding this Statement of Assurance for FY 2024, my point of contact for this action is Mr. Erich Gabris, DLA Chief Risk Officer. He can be reached at (571) 431-9621 or via email at Erich.Gabris@dla.mil.



MARK T. SIMERLY
LTG, USA
DIRECTOR

Summary of Internal Control

The objectives of the system of internal control of DLA are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations including financial information systems requirements;
- Safeguarding of Federal assets and data; and
- Financial information systems compliance with FFMIA.

Federal Managers' Financial Integrity Act

The DLA management evaluated the Agency's system of internal control in effect during the current fiscal year according to the guidance prescribed in the GAO Green Book and OMB Circular A-123.

The DLA's evaluation of internal controls spans all responsibilities and activities, including those of its services providers, administrative and operational controls, and financial reporting. In the GAO Green Book "reasonable assurance" is defined as "a high degree of, but not absolute, confidence." Reasonable assurance considers the costs versus benefits of internal controls, recognizing that while they mitigate risks, errors or irregularities may

still occur due to inherent limitations, such as resource constraints and external factors. The perpetual evolution of conditions and compliance requirements also impacts the adequacy of controls.

The DLA considered the five components, and seventeen principles defined by the GAO Green Book, identifying deficiencies and gaps in each of the five standards of internal control and concluding with a statement of no assurance due to material weaknesses in internal controls over financial reporting, material weakness related to internal controls over financial systems, limited self-assessments of internal controls, and ineffective self-evaluations of internal control systems.



A PILE OF FERROCHROME

Pile of ferrochrome in Scotia, New York. Ferrochrome is used in chrome plating and other alloyed metals.

Photo by: Courtesy of DLA

Despite this, DLA made progress in these areas to continue to work on achieving reasonable assurance in its internal control system:

- **Control Environment:** In support of the FY 2024 Secretary of Defense (SecDef) Audit Priorities, the ERM Program Management Office (PMO) worked to identify control owners and specific control activities that align to the 48 control attributes in the GAO Green Book. This is the first time 100% of Entity-Level Controls (ELCs) were assessed comprehensively on a DLA-wide basis, laying the groundwork for continued improvement in these foundational controls in years to come.
- **Control Activities:** In FY 2024, DLA began initiatives aligned with SecDef directives to document ten end-to-end process control narratives (PCNs) and test the related system and business process design and execution controls. DLA implemented a framework correlating key controls from DoD-wide PCNs with DLA-specific processes, facilitating stakeholder identification and ongoing status monitoring of key controls. The initiatives equipped DLA to ensure proper and timely alignment, designing, implementing, and testing of key controls.
- **Risk Assessment:** DLA has continued to execute a robust fraud risk management in alignment with GAO and DoD requirements. DLA has published a Fraud Risk Management (FRM) Strategy, signed by the DLA Chief of Staff. The Strategy is a five-year roadmap on how to design and sustain an effective FRM program to protect DLA's assets and resources and support warfighter readiness. In FY 2024, the ERM PMO focused on initiatives to develop the GAO Fraud Risk Management Framework linked to DLA's ELCs, Fraud Risk Management Guidance, and CAPs for the three Fraud ELCs.
- **Information and Communication:** In FY 2024, the ERM PMO collaborated with J6 and J8 to deploy two program increments of a Governance,

Risk, and Compliance (GRC) tool focused on building a standardized automated CAP process, with pilot data focusing on CAPs from the financial statement audit. Additionally, the program increments featured the development of risk management frameworks and roles. As additional capabilities are brought into the GRC system, DLA will be better able to automate Risk Management Internal Control (RMIC) activities, provide consistent reporting, and enable maturation of the internal control environment that is the source of a material weakness at DLA.

- **Monitoring:** The ERM PMO revised CAPs to address external and internal environmental changes impacting DLA's risk landscape. The revisions better captured the ERM PMO role from both an oversight and monitoring perspective, highlighting each DLA organization's responsibility to implement and execute the RMIC program within their respective areas of responsibility for all end-to-end processes, holding them accountable and rigorously monitoring the progress made.

DLA's ERM PMO was established in 2019 under the direction of DLA's Chief Risk Officer to integrate RMIC control activities into an ERM framework, resulting in improved mission delivery, reduced costs, and corrective actions focused on addressing key risks. The ERM PMO developed its first RMIC Action Plan in FY 2023 to address the full spectrum of DLA's risk portfolio and internal controls across all organizational and business units. Over the last four years, the ERM PMO has been working to mature DLA's Internal Control Program. Going forward, the ERM PMO will continue to work towards an effective, coordinated, and compliant Internal Control Program across all DLA organizations, End-to-End business processes, and assessable/sub-assessable units. When fully implemented, the RMIC Action Plan will help DLA achieve a robust and effective IC Program and favorable results when evaluating its overall IC system.

The DLA's Summary of Financial Statement Audit and Management Assurances for the SOA package and audit related material weaknesses are presented in the OI section of this report.

Federal Financial Management Improvement Act

FFMIA was enacted to advance federal financial management by ensuring that Federal financial management systems can routinely provide reliable financial information uniformly across the Federal government following OMB Circular A-123 Appendix D, Management of Financial Management Systems – Risk and Compliance. The FFMIA requires Agencies to establish and maintain financial management systems that substantially comply with the following three FFMIA Section 803(a) requirements:

- Federal Financial Management System Requirements (FFMSRs)
- Federal Accounting Standards
- U.S. Standard General Ledger (USSGL) at the transaction level

OMB Circular A-123, Appendix D provides the compliance determination framework to evaluate compliance with the FFMIA requirements. The FFMIA compliance determination framework includes a series of Federal financial management goals applicable across all Federal Agencies and associated compliance indicators that assist the Agency head in determining whether the Agency has substantially complied with the requirements of FFMIA.

The DLA leveraged the OMB Circular A-123, Appendix D compliance determination framework to perform a review of data for each of the FFMIA compliance indicators and associated analysis to determine DLA's current level of compliance with FFMIA and the additional actions necessary to reach full compliance. The results of the Agency's analysis of relevant FFMIA compliance indicators indicate that there exist high-risk factors associated with all three FFMIA Section 803(a) requirements. The risks are described as follow:

FFMSRs:

High-risk factors include material weaknesses reported in FY 2024 in areas that corresponded to FFMSRs.

Federal Accounting Standards:

High-risk factors include material weaknesses reported in FY 2024 in areas that related to compliance with Federal accounting standards.

USSGL at the Transaction Level:

High-risk factors include material weaknesses reported FY 2024 in areas that related to implementation of the USSGL at the transaction level.

For FY 2024, the table below summarizes the status of unresolved deficiencies associated with each of the FFMIA Section 803(a) requirements and remediation activities that are planned or underway, target dates, and offices responsible for bringing systems into compliance.



DRUMMED MATERIAL WAREHOUSE

Drummed material of electrolytic chrome is used by the metal plating industry for high-performance alloys in jet-engine applications.

Photo by: Courtesy of DLA

FFMIA Section 803(a) Requirement	Remediation Activities	Target Date	Responsible Offices
Federal Financial Management System Requirements	The DLA will continue to develop and document policies, procedures, and controls in order to comply with standards, laws, and regulations that promote reliable financial reporting and effective and efficient operations.	FY 2025 - FY 2027	<ul style="list-style-type: none"> • Finance • Information Operations • Acquisition • Logistics Operations
Federal Accounting Standards Advisory Board (FASAB)	The DLA will continue to perform a root cause analysis to identify underlying issues as well as develop and document policies, procedures, and controls to maintain accounting data to permit reporting in accordance with U.S. GAAP as established by the FASAB.	FY 2025 - FY 2027	<ul style="list-style-type: none"> • Finance • Information Operations • Acquisition • Logistics Operations
USSGL at the Transaction Level	To reduce the material risks of procedural and post-ing logic deficiencies and achieve compliance with applicable accounting regulations, DLA will identify non-compliant areas with a financial impact in processes across the enterprise. This approach will include creating and updating policies, procedures and internal controls, as well as requesting the implementation of system changes to address underlying errors in the systemic posting logic.	FY 2025 - FY 2027	<ul style="list-style-type: none"> • Finance • Information Operations • Acquisition • Logistics Operations

Compliance with Laws and Regulations

Anti-Deficiency Act

The Anti-Deficiency Act (ADA) Title 31 U.S.C. §1341, prohibits Federal employees from obligating funds in excess of an appropriation or before funds are available, or from accepting voluntary services. As required by the FMR, DLA notifies all appropriate authorities of any potential ADA violations. There is one known potential ADA violation for the DLA National Defense Stockpile Transaction Fund (NDSTF). This potential DLA NDSTF violation (Case 23-01) was identified in September 2023. DLA completed the formal investigation and submitted the final formal investigation report to the OUSD ADA Program Management Office (PMO) on December 13, 2024. The OUSD ADA PMO submitted the formal investigation report to the OUSD Office of General Counsel for Advance Decision on December 17, 2024. According to the ADA process timeline established by the OUSD ADA PMO, the OUSD Office of General Counsel will have 3 months from the date of receiving the formal investigation report to provide their legal Advance Decision for the Case 23-01.

Digital Accountability and Transparency Act of 2014

The Digital Accountability and Transparency Act of 2014 (DATA Act) expands the Federal Funding Accountability and Transparency Act of 2006 to increase accountability and transparency in Federal spending. This Act mandates that Federal expenditure information be more accessible, making it available to the public through standardized reporting.

The DATA Act, OMB Circular A-123, the GAO Green Book, and DoD's Data Quality Plan (DQP) require all agencies to improve the quality of their data. The DATA Act requires the quarterly reporting of obligation and spending data on USASpending.gov. The standardization of spending data in a consistent format enables more visibility to taxpayers and allows the Department to make informative decisions for accomplishing our mission and performance objectives.

During FY 2024, DLA published and continued implementation of its Enterprise Data Management DQP. The DQP defines the standards, requirements and specifications for

data quality controls as part of the data lifecycle, ensuring data is accurate and complete in the core financial system, Enterprise Business System (EBS).

To comply with the DATA Act, DLA assesses a sample of financial and award transactions from the general ledger on a quarterly basis to verify if the data elements meet the requirements prescribed by DoD in the DoD SOA Execution Handbook. Annually, DLA completes the Data Quality Control Matrix (DQCM), which includes the results of the quarterly assessments of the data elements tested.

For FY 2024, DLA's assessment reviewed the 12 applicable data elements and identified anomalies in eight of the data elements reviewed. The anomalies were researched, corrected, and no further issues were identified. As of September 30, 2024, DLA is reporting compliance for 12 of 12 data elements. DLA remains committed to maintaining high standards of data quality and transparency in federal spending, in accordance with the DATA Act requirements.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act (DCIA) of 1996 requires Federal Agencies to refer legally enforceable, past due, non-tax debts to the Secretary of the Treasury after 180 days. Section 5 of the DATA of 2014 amended the DCIA of 1996 to reduce the time period to 120 days.

Accordingly, at the end of each fiscal quarter, DFAS prepares the Treasury Report on Receivables (TROR) to notify the Secretary of the Treasury of receivables due from the public aged more than 120 days.

On behalf of DLA, DFAS reports all instances of delinquent debts over 120 days to the Secretary of Treasury in compliance with the DCIA. On a quarterly basis, DLA receives a Payment Recapture Recovery Report from DFAS on a recurring basis. This spreadsheet provides recovery actions undertaken by DCDS to recover improper payments and vendor debt and includes reason for debt, whether for overpayment or due to contract default, what was recovered,

what was the disposition of funds recovered, and the aging of funds not recovered. For FY 2024, DLA noted no instances of noncompliance with the DCIA of 1996.

Prompt Payment Act, 31 U.S.C. §§ 3901– 3907

In 1982, Congress enacted the Prompt Payment Act (PPA) to require Federal Agencies to pay their bills on a timely basis, to pay interest penalties for late payments, and to take discounts only when payments are made by the discount date.

The DLA is in compliance with the reporting and processing of payments in accordance with the Prompt Pay Act. DLA's entitlement system is configured to calculate and pay interest in accordance with the Prompt Payment Act when payments are not made timely, interest, penalties, and administrative fees are incurred. DLA receives a Monthly Interest Penalty and Improper Payments Report from DFAS and performs an oversight review of these reports.

Government Charge Card Improvement Act of 1996

The Charge Card Abuse Prevention Act (Charge Card Act) requires Agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Charge Card Act requires Agencies to report purchase card violations, and the Inspector General to conduct periodic risk assessments of government charge card programs. DLA is unable to provide assurance over compliance with the Charge Card Act but has multiple layers of processes and controls in place to identify fraudulent purchases.

In order to mitigate the risk of fraud, DLA uses the DoD mandated Insight on Demand (IOD) system, which is an artificial intelligence data mining platform that automatically analyzes Government Purchase Card (GPC) data to identify and flag high risk transactions.

DLA has processes in place for Approving/Billing Officials (A/BO), Agency/Organization Program Coordinators (A/OPC) and the Component Program Managers (CPMs) to conduct transaction reviews and overall program compliance reviews in order to mitigate the risk of fraud and misuse. MSCs audit teams also conduct GPC reviews. As a result of IOD and DLA processes, transactions are reviewed by A/BOs, A/OPCs, and CPMs daily, monthly, semi-annually, and annually with corrective action assigned as appropriate. Corrective

actions include account suspensions and/or terminations, formal and informal counseling, re-training, and increased oversight.

Management and/or their designees review and approve all requests and supporting documentation for adequacy, accuracy and completeness before the cardholder makes the purchase. The A/BOs approve the use of the GPC as the method of payment and review 100% of purchases made by cardholders. The A/OPCs perform a monthly review over a minimum of 6.0% of all cardholder transactions, take corrective actions and provide results to the CPMs for review. The A/OPCs and CPMs also review all monthly statement approval and certifications to identify any A/BO violations of segregation of duty policies.

The A/OPCs and A/BOs review 100% of all flagged IOD data mining cases daily. A/OPCs complete a monthly checklist within IOD, which is a series of oversight questions that document users are appointed and that their training is current, and the CPMs review the monthly A/OPC reports within IOD to include corrective actions taken for any identified non-compliance. A/OPCs complete a semi-annual head of activity report within IOD that captures program oversight data, including the number of transactions flagged for review, findings, and corrective actions assigned. The A/OPCs brief their head of activity with the results. CPMs complete a semi-annual head of activity report within IOD that captures program oversight data at the Agency level and briefs to the Senior Procurement Executive. Any fraud cases are reported through the chain of command.

The CPMs also conduct an annual comprehensive program review of each DLA GPC Activity, which includes a random sampling of cardholder transactions, appointment and training documentation, and overall program oversight responsibilities. The CPM assigns corrective actions as appropriate and provides results to senior leadership.

During FY 2024, there were no known instances of fraud identified as a result of reviews or audits.

Financial Systems

Financial Management Systems Strategy

The DLA continues to strive toward providing financial management systems that enable, support, and optimize the performance of financial activities; ensure accountability and control of resources; and produce accurate, consistent, and timely financial and program information to inform Agency decision-makers at all levels. DLA financial management systems continue to undergo profound changes essential to maintaining and optimizing operational effectiveness in support of fiscal stewardship – a DLA strategic and critical capability.

The DLA is continuously adopting modern software engineering practices to advance technology for the future mission. DLA has migrated its principal financial management system, EBS, from a legacy system to a modern cloud environment and is engaged in a major system upgrade. Harnessing modern technological practices will allow DLA to maximize readiness while increasing operational excellence. These changes will effectively contribute to improving DLA's overall financial management system compliance posture by eliminating and remediating deficiencies through re-engineering, thus ensuring compliance with relevant Federal laws, regulations, and policies affecting financial management systems.

DLA is unable to provide assurance that its financial management systems comply with relevant federal statutory and regulatory requirements including both financial accounting and system security requirements. DLA continues to review audit findings from prior and current financial statement audits and coalesce finance and other business stakeholders to develop CAPs and resolve findings. Identified deficiencies are prioritized and aligned to the appropriate plans and system enhancements.

In addition to identified audit findings, DLA is working to become compliant with DoD requirements including Standard Financial Information Structure and Standard Line of Accounting (SLOA). The implementation of DoD SLOA is designed to improve interoperability with other DoD business systems and provide better end-to-end funds traceability and eliminations reporting to enable successful audits in DoD. The EBS posting logic issues are planned to be addressed via system enhancements after the go-live, February 2026. The current migration included improvements to the EBS chart of accounts updates.

Both Finance (J8) and Information Operations (J6) work collaboratively to build a roadmap for future financial management system improvements based on budget availability, resources, and system constraints. DLA's financial management systems strategy supports the overarching strategy of DLA to align end-to-end busi-



ALLOY STORAGE FOR THE FUTURE

DLA Strategic Materials worker demilitarizes an aircraft engine component in order to recover the strategic materials/nickel-based super alloys. The alloys will be stored for possible use in the future. **Photo By:** Nutan Chada

ness processes with financial statements line items with a focus on risk and controls. DLA will also continue to focus on remediating any issues associated with material weaknesses and DoD CFO and Chief Information Officer (CIO) priorities.

New and modernized technology is the foundation of Digital-Business Transformation (D-BX), and DLA Information Operations continuously evaluates the IT operating environment to identify opportunities to streamline and automate processes and ensure alignment with DoD and DLA Strategic Initiatives. One example of these types of efforts in process includes increasing the use of cloud computing technologies and solutions. Many applications have initiated cloud computing migration.

As part of the 2021-2024 Strategic Plan, DLA's D-BX will continue to invest in digital modernization. This will enable DLA to enhance performance, reduce costs, make more predictive and data-driven decisions, and improve customer experience. Additionally, this modernization will transform systems and processes to improve transparency, reliability, and security for DLA's employees, customers, and suppliers. DLA data assets include supply chain, acquisition, personnel, information management, and financial data, along with the infrastructure and exchanges that move it. Looking forward, this will also drive effective data management and enable DLA to ease data analysis as a service for its business users with ease of access and for data-driven decisions.

Financial Management Systems Framework

The DLA relies on EBS as its principal financial management system of record to process, track and report all business events that impact DLA NDSTF. The core of EBS is Systems Applications and Products (SAP) Enterprise Resource Planning (ERP) Central Component (ECC) version 6.0. DLA EBS ECC 6.0 has a single, enterprise general ledger which is used for all funds. This is a cloud-hosted, commercial off-the-shelf (COTS) software product that has been configured and customized to meet DLA's business requirements. However, due to system limitations, accurate data is not always produced, and DLA is unable to provide assurance that the financial

systems are in compliance with Federal system security and accounting requirements. There are numerous systems which interface with EBS. These include but are not limited to inventory and customer ordering systems, including the Distribution Standard System, a legacy inventory warehouse management system and multiple DFAS systems, including the Defense Departmental Reporting System (DDRS) – for the creation of financial statements, reports, and Treasury cash management. DLA is unable to provide assurance that EBS is compliant with Federal accounting and security requirements.

Future Financial Management Systems Framework

DLA migrated the existing EBS SAP ERP application environment to SAP's Secure HANA Cloud (SHC) platform. DLA begun the process for migrating its principal financial management system, EBS SAP ECC 6.0 to SAP S/4HANA in SAP's SHC. These migrations will provide an improved cyber security posture as well as enhanced capabilities for accounting and financial reporting and improved auditability.

The DLA is in the third year of a two phased ERP Migration. Phase 1 was ERP Migration to Cloud (M2C), and during this phase, all applications that were within the EBS accreditation boundary were migrated to SAP's Secure HANA Cloud platform. Phase 1 was successfully completed on February 22, 2022. Phase 2, started concurrently with Phase 1, is DLA's ERP Migration to Standard (M2S) – SAP S/4HANA in SAP's SHC. Phase 2 has four sub-phases: Business Transformation Study (BTS), Business Process Reengineering (BPR), Requirements Development, and Execution. The ERP Transformation execution is planned for a final implementation date (Go Live) of February 2026.

The DLA BTS, completed in FY 2022, identified opportunities for business processes reengineering (BPR) – opportunities to de-customize and adopt standard SAP S/4 HANA capability. DLA is currently conducting BPR with the goal of eliminating as much customization as possible. And thus, use standard capability to the maximum extent possible to streamline business processes, adopt industry best practices, reduce cost, and allow for better innovation going forward. DLA BPR workshops will continue and additional BPRs

will be prioritized, scheduled, and put on contract.

The DLA will also be implementing system changes to meet the requirements of Treasury's G-Invoicing system. G-Invoicing will help address government-wide

accounting elimination problems by ensuring trading partners have the same information for intragovernmental transactions. Currently, DLA's G-Invoicing system solution is on track for production, and will be implemented in phases during FY 2025 and 2026.

FORWARD-LOOKING INFORMATION

The following areas present insights into how the Agency shapes its programs and responds to challenges posed to DLA's goals and missions.

An Ever-Changing Workforce

The DLA is a high-performing organization, and DLA's workforce is its greatest asset. We must attract, develop, and retain a skilled and agile workforce. The two People and Culture objectives are the strategies that will assist DLA in mitigating several significant external factors that will affect DLA and its workforce. A new People and Culture Plan will be effective starting in FY 2025.

Changing demographics are a key factor in today's workforce, with five different generations working side-by-side, and DLA civilians playing an increasingly critical role in supporting global DoD missions. As the DLA's demographics evolve, we continue to evaluate current HR initiatives and develop new strategies to excel in areas such as recruitment, training and development, work-life balance, and managing a geographical environment. At the same time, DLA remains committed to maintaining strong connections to culture, fostering knowledge transfer, building leadership skills, enhancing labor management relations, and promoting a culture with an efficient workforce. These efforts will help DLA attract and retain top-quality candidates while supporting DLA's Strategic Plan Imperative People, Build Organizational Agility Through Our People and Culture.

The work environment plays a crucial role in both Talent Acquisition and Retention across the Agency. DLA's success as an organization is largely dependent on the ability to cultivate and sustain a high-performing, results-driven culture, especially as DLA navigates evolving

demographics, economic shifts, and technology advancements. DLA Human Resources, J1, collaborates closely with DLA leaders and the workforce to identify areas of improvement, ensuring that employees are engaged, and satisfaction remains high while staying aligned with the Agency's mission. To effectively manage change, we continuously apply and refine change management techniques. These strategies help reduce the uncertainty that often accompanies organizational changes and minimizes resistance, ensuring smoother transitions and higher acceptance of new initiatives. By maintaining balance, we create an adaptable and resilient workforce, capable of achieving the Agency's goals.

Appropriations and funds allocation for recruitment, hiring, relocation, retention incentives, and developing/training of top quality candidates is crucial to DLA being competitive with other Federal agencies, as well as the private sector. DLA plans to continue to ensure these HR activities are funded appropriately through detailed budget request to meet the demands required to appeal to top talent and driving workforce planning initiatives that position employees for success.

Additionally, technology advancements are a big factor for the workforce. DLA continues to make big improvements in self-service capabilities, easy access to people and tools that employees need, and automation of routine processes are in DLA's future. In partnership with DLA Information Operations (J6), DLA Human Resources (J1) is currently working on expanding their technological footprint with the use of ServiceNow. Through the use of ServiceNow, the self-service capabilities for employees will expand to a new level. Employees will be able to use a single point of entry to gain access

to all things J1. Employees will immediately be sent to the correct point of contact based on their need, they will be able to submit requests through a monitored tracking system, where employees can check status at any time, engage with chat bots on routine questions, and get the HR related forms they need at any time. J1 and J6 have started the process for implementation with the first phase. Current capabilities this FY include: (1) HR data integration for DLA employee profiles, (2) knowledge management, (3) general inquiries, (4) retirement estimate requests and (5) classification requests.

External Threats

In response to the President's call for governmental reform and under the Direction of the Director of Administration and Management, DoD is reviewing, changing, and setting up processes, where appropriate, to gain efficiencies and maximize savings to reinvest into service readiness. This is aligned to the LOE of Warfighter Always.

The DoD as a whole faces numerous challenges – ranging from strategic competition and aggression from other nations and the threat of terrorism to the concern of securing funding necessary to accomplish the mission. These threats directly affect DLA's mission and goals. As the Nation's Combat Logistics Support Agency, DLA monitors these external threats to ensure readiness and support of the Warfighter.

In addition, DLA continuously reviews its strategy to meet global mission requirements as prescribed by DoD. DLA conducted a review of our current strategy against the FY 2023 NDAA DoD Strategic Management Plan (SMP) for Fiscal Years 2022 – 2026, the 2023 ASD(S) Strategic Plan and supporting metrics, DoDI 3000. LU, "Strategic Readiness" policy, and A&S Big Plays Memo to assess their impact and ensure alignment with DLA's 2021-2024 Strategic Plan remains in effect. DLA assisted ASD(S) to rename their Goal 4 to "Optimize Warfighter Logistics" and descoping the three supporting objectives to areas that DLA can impact/influence within the ASD(S) Strategic Plan. DLA was also part of the FY 2023 - 2024 Defense Activity Field Activity

(DAFA) Review. Section 192(c) of Title 10, U.S.C. directs the Secretary of Defense to review the efficiency and effectiveness of each DAFA, and this cycle included three specific focus areas for DLA: (1) contingency demand planning, (2) depot-level reparables, and (3) warehouse utilization. After completion of the review, the Director of Administration & Management (DA&M) will provide a consolidated report on the review to the congressional defense committees.

DLA Strategic Plan is designed to meet the evolving requirements of the Warfighter and the nation with a targeted transformative approach encompassing the most critical priorities for the next four years. DLA's Strategic Plan reaffirms and extends DLA's commitment to Warfighter readiness and lethality and to self-accountability. The current plan, which expires this FY, describes five LOEs and three CCs, with their respective objectives, that DLA leverages to provide global, end-to-end supply chain solutions: Warfighter Always, Support to the Nation, Trusted Mission Partner, Modernized Acquisition and Supply Chain Management, Future of Work, People and Culture, Fiscal Stewardship, and Digital-Business Transformation. DLA released the DLA Strategic Plan 2025-2030 "DLA Transforms: A Call to Action". The changes in the strategic plan reflect DLA's commitment to continuous improvement and responsiveness to adapt to the evolving needs of our stakeholders. The vision presented in the 2025-2030 Strategic Plan will enhance DLA's ability to fulfill its mission and achieve long-term goals. DLA will be updating its performance reporting framework and key performance results to align financial reports with the revised strategic objectives in FY 2025.

Within the context of external threats to economic stability, national security, and Warfighter readiness, DLA's Enterprise Risk Management (ERM) program proactively takes a strategically aligned, risk-based approach to protecting our ability to achieve stated mission goals and objectives. Leveraging ERM as a strategic capability, DLA is continuing to mature its ability to identify the threats and opportunities associated with uncertainty

and to build priority-based, data driven responses that appropriately align with DLA's Risk Appetite and Risk Tolerance levels.

As part of its risk management efforts, DLA has published a Fraud Risk Management (FRM) Strategy, signed by the DLA Chief of Staff. The strategy is a five-year roadmap on how to design and sustain an effective FRM program which includes a fraud framework for protecting DLA's assets and resources; and how to protect DLA's assets and resources from fraud which can negatively impact DLA's ability to support the warfighter and strategic goals. ERM takes an integrated, strategic approach to supporting DLA's mission while managing risks by providing a prioritized listing of Agency-wide risks in an annual Risk Profile. Employing a rigorous approach, DLA coordinates across the enterprise to establish the annual Risk Profile as part of the Statement of Assurance deliverables DLA transmits to OUSD(C)

annually. Since the Publication of the Strategy, DLA ERM PMO has been working towards executing it in the most efficient manner focusing on different area every year. Each year has brought multiple successes. In FY 2023, DLA executed a comprehensive "top down" and "bottom up" approach to identifying, assessing, consolidating, and prioritizing DLA's enterprise-level risks. Upon thorough discussion amongst senior leadership within established ERM governance forums, DLA affirmed its commitment to protecting DLA's operational resiliency and strategic priorities through its approved FY 2023 DLA Risk Profile. The items identified all represent potential threats to DLA's ability to achieve its strategic objectives and support the Warfighter if the risks are realized.

For FY 2024, ERM PMO reported nine Enterprise level risks on the FY 2024 Risk Profile. These risks were identified as having a material impact to DoD. The nine



DLA DIRECTOR'S FIRST LOOK

DLA Director U.S. Army Lt. Gen. Mark T. Simerly, center, visited DLA Distribution headquarters in New Cumberland, Pennsylvania, Feb. 29 to receive a command overview of what DLA Distribution does to support the warfighter, what the future of DLA Distribution operations looks like and to deliver his overall guidance to DLA Distribution leaders. Photo by Matthew Mahoney. **Photo By:** Matthew Mahoney

risks were identified as five (5) Enterprise Risks and four (4) Fraud Risks:

1. Industrial Base Vulnerabilities
2. Supply Chain Security
3. Resource Constraints Affecting Material Readiness
4. Loss of Critical Technology Capability
5. Audit Opinion Progress
6. Asset Safeguards Fraud Risk
7. Procurement Fraud Risk
8. Payroll Fraud Risk
9. Card Program Fraud Risk

The DLA is continuing to work around the clock to secure and defend the Agency's critical operational data network, and business systems by applying key security principles and ensure readiness for current and future cyber threats that must be countered in a sustained effort. These security principles include:

- Operations-level situational awareness;
- Layered perimeter defenses;
- Least privilege for access to data and IT capabilities; and
- Physical or logical segmentation of networks, services, and applications.

DLA efforts relating to climate risks are reported at the DoD wide level, as instructed per OMB Circular A-136 requirements for Significant Entities and the Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, Appendix 1a, *List of Significant Entities*. The DoD sustainability and adaptation plans, reports, and scorecards can be found at: [Federal Progress, Plans, and Performance | Office of the Federal Chief Sustainability Officer](#).



OKLAHOMA CITY DLA STRATEGIC MATERIAL PROGRAM

David Savage, a DLA Oklahoma City, Oklahoma employee, sorts through material turned into DLA by Tinker Air Force Base, Oklahoma City, Oklahoma. Savage is supporting national security by finding material that could be reclaimed, reused and recycled, allowing the United States to not rely on foreign sources for critical materials. **Photo By:** Nutan Chada



AGENCY FINANCIAL
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20 24
YEAR
REPORT



SECTION 2



FINANCIAL SECTION

SECTION 2

Financial Section

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SECTION 2 Title Page Image Captions + Credits (listed clockwise)**1. RUNNING START**

Air Force Col. Dustin Thomas launches a 3D-printed unmanned aerial system at Eglin Air Force Base, Fla., April 25, 2024. The launch was part of a demonstration to create, build and fly an unmanned aerial system within 24 hours. **Photo by:** Samuel King Jr., Air Force

2. DLA ENERGY SUPPORTS SPACE MISSIONS FROM COAST TO COAST

The Defense Logistics Agency Energy Aerospace team fueled two space missions in September 2023. DLA Energy provided high purity hydrazine and rocket propellant kerosene for United Launch Alliance's Atlas V rocket carrying the National Reconnaissance Office SILENTBARKER/NROL-107 multi-payload mission from Cape Canaveral Space Force Station, Florida. **Photo by:** United Launch Alliance

3. FORT IRWIN DISPOSAL

Disposal Services Representative Leah Bailey looks over a DLA-bound property collection point at Fort Irwin. Bailey is part of the nearby DLA Disposition Services property disposal site team that assists the National Training Center and major commands throughout the region with equipment disposition, reuse, and hazardous materials disposal. **Photo by:** Jake Joy

4. FUTURE PILOT

A child tries on a fighter pilot's helmet during a visit to Joint Base Elmendorf-Richardson, Alaska, April 29, 2024. The child was there to learn more about where his parents work and see an F-22 Raptor up close.

Photo by: Air Force Tech. Sgt. Don Hudson

AUDIT REPORTS



OFFICE OF INSPECTOR GENERAL

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

February 21, 2025

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Logistics
Agency National Defense Stockpile Transaction Fund Financial Statements
and Related Notes for FY 2024

(Project No. D2024-D000FE-0049.000, Report No. DODIG-2025-072)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund (Transaction Fund) Financial Statements and related notes as of and for the fiscal year ended September 30, 2024. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DLA Transaction Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract also required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2024; Volume 2, June 2024; and Volume 3, July 2024. EY's Independent Auditor's Reports are attached.

EY's audit resulted in an unmodified opinion. EY concluded that the DLA Transaction Fund Financial Statements as of and for the fiscal year ended September 30, 2024, were presented fairly in all material respects, in accordance with Generally Accepted Accounting Principles.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting," discusses five material weaknesses related to the DLA Transaction Fund's internal controls over financial reporting.* Specifically, EY's report stated that the DLA Transaction Fund did not:

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

- validate inventory systems and account for the appropriations used to purchase inventory;
- accrue for incurred liabilities and record expense transactions in the proper period;
- implement sufficient controls to review and identify inaccurate balances within the financial statements and incomplete or inaccurate footnote disclosures;
- document end-to-end business processes, monitor internal control risks, and remediate audit findings; or
- ensure the effective design and operation of financial reporting information systems.

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DLA's financial management systems did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DLA Transaction Fund FY 2024 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DLA Transaction Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached February 21, 2025, reports and the conclusions expressed within the reports.

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



Lorin T. Venable, CPA

Assistant Inspector General for Audit
Financial Management and Reporting

Attachments:

As stated



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Report of Independent Auditors

The Director of the Defense Logistics Agency and the
Inspector General of the Department of Defense

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the National Defense Stockpile Transaction Fund of the Defense Logistics Agency (DLA NDSTF), which comprise the balance sheet as of September 30, 2024, and the related statements of net cost and changes in net position and statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DLA NDSTF at September 30, 2024, and the results of its net cost of operations, its changes in net position and its budgetary resources for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and the provisions of OMB Bulletin No. 24-02 are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DLA NDSTF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Adoption of Accounting Standard

As discussed in Note 1.S and Note 11 of the financial statements, in FY 2024 the DLA NDSTF established beginning balances for Inventory and related property, net using deemed cost in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 48, *Opening Balances for*



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with confidence**

Inventory, Operating Materials and Supplies, and Stockpile Materials. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DLA NDSTF's internal control. Accordingly, no such opinion is expressed.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the DLA NDSTF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the Table of Contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Message from the Director, Message from the CFO, Summary of Financial Statement Audit and Management Assurances, Management Challenges, Payment Integrity, and Financial Reporting-Related Legislation but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.



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In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 21, 2025, on our consideration of the DLA NDSTF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DLA NDSTF's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DLA NDSTF's internal control over financial reporting and compliance.

Ernst & Young LLP

February 21, 2025



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Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Director of the Defense Logistics Agency and the
Inspector General of the Department of Defense

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the National Defense Stockpile Transaction Fund of the Defense Logistics Agency (hereafter referred to as the DLA NDSTF), which comprise the balance sheet as of September 30, 2024, and the related statements of net cost and changes in net position and statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”), and our report dated February 21, 2025 expressed an unmodified opinion thereon that included an Emphasis of Matter section regarding DLA NDSTF’s establishment of beginning balances for Inventory and related property, net using deemed cost in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* in fiscal year 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DLA NDSTF’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DLA NDSTF’s internal control. Accordingly, we do not express an opinion on the effectiveness of DLA NDSTF’s internal control. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982, such as those controls relevant to preparing performance information and ensuring efficient operations.

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



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

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. We consider the deficiencies in internal control described below and in Appendix B to be significant deficiencies.

DLA NDSTF's Material Weaknesses

We identified the following matters involving internal control over financial reporting and its operation that we consider to be material weaknesses, as defined above:

- I. **Inventory** – Inventory is comprised of strategic and critical materials that can be used in times of national emergencies, including ores, metals, and minerals. DLA NDSTF did not have adequate policies, procedures and internal controls related to validating the perpetual inventory systems by performing periodic physical counts, recording inventory transactions, including all capitalizable purchase costs, in the appropriate period, and accounting for the appropriations used to purchase inventory. Furthermore, DLA NDSTF lacked adequate controls to ensure that information used to calculate deemed cost was accurate as part of its SFFAS No. 48 implementation. The combination of these deficiencies in aggregate results in a material weakness in internal control related to inventory. The matters identified related to inventory are further described in Appendix A.
- II. **Accounts Payable (AP) and Expense** – AP represents the amount owed to third parties by DLA NDSTF for goods and services received. Expenses are incurred and recognized when DLA NDSTF receives goods and services from the public or other federal entities. DLA NDSTF lacked adequate controls to record obligations and adjustments to other budgetary accounts timely, accrue for liabilities incurred but not paid, and record expense transactions in the period they were incurred. Furthermore, DLA NDSTF lacked adequate policies, procedures and controls related to AP adjustments recorded to properly classify negative payable balances, capitalized costs and the recognition of inter-entity cost. The combination of these deficiencies in aggregate results in a material weakness in internal control related to AP and expense. The matters identified related to AP and expense are further described in Appendix A.



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- III. Financial Reporting – Financial reporting encompasses all aspects of operations affecting DLA NDSTF’s ability to produce reliable financial statements and disclosures in accordance with U.S. generally accepted accounting principles (GAAP). DLA NDSTF’s financial statement preparation process lacked sufficient controls to review and identify inaccurate balances within the financial statements and incomplete or inaccurate footnote disclosures. In addition, DLA NDSTF did not have controls to review and approve transactions recorded with elevated access privileges. The combination of these deficiencies in aggregate results in a material weakness in internal control related to financial reporting. The matters identified related to financial reporting are further described in Appendix A.
- IV. Oversight and Monitoring – Oversight and monitoring relates to DLA NDSTF’s lack of establishment and implementation of a sufficient enterprise-wide control environment as required by OMB Circular A-123, *Management’s Responsibility for Enterprise Risk Management Internal Control*. DLA NDSTF did not have an effective OMB Circular A-123 program, which impacted DLA NDSTF’s ability to appropriately identify and address significant risks for all key business processes. DLA NDSTF did not implement appropriate internal controls, including the documentation of policies and procedures that describe DLA NDSTF’s environment related to end-to-end business processes, monitoring of service providers, systems, risks, controls and remediation of audit findings. In addition, DLA NDSTF did not perform a proper review of data/reports used in the execution of key controls. The combination of these deficiencies in aggregate results in a material weakness in internal control related to oversight and monitoring. The matters identified related to oversight and monitoring are further described in Appendix A.
- V. Information Systems – Our assessment of DLA NDSTF’s information technology (IT) controls and the computing environment identified deficiencies which, collectively, constitute a material weakness in the design and operation of information systems controls over financial data. Based on our review, we identified five areas of deficiency which, when aggregated, result in a material weakness. The deficiencies relate to the following five areas:
- Access Controls
 - Configuration Management
 - Segregation of Duties Controls
 - Security Management/Governance Over Implementation of Security Controls
 - IT Operations

The matters identified related to information systems are further described in Appendix A.



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DLA NDSTF's Significant Deficiencies

We identified the following matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies, as defined above:

- I. **Revenue** – Revenue is earned when DLA NDSTF sells goods to the public. DLA NDSTF lacked adequate policies, procedures and controls to ensure that revenue and cost of goods sold are recorded in accordance with U.S. GAAP. The matters identified related to revenue are further described in Appendix B.
- II. **Environmental Liabilities (EL)** – ELs are comprised of cleanup costs associated with the restoration of sites on real property that DLA NDSTF manages. Within DLA NDSTF's process to estimate ELs, DLA NDSTF did not perform sufficient procedures to assess the completeness and accuracy of data and reports used in the execution of key controls. The matters identified related to EL are further described in Appendix B.
- III. **Fund Balance with Treasury (FBwT)** – FBwT represents the aggregate amount of funds in DLA NDSTF's account with U.S. Treasury. DLA NDSTF did not document the procedures performed to reconcile FBwT, including procedures to assess the completeness and accuracy of the source data used to reconcile collection and disbursement activity from the general ledger to U.S. Treasury. DLA NDSTF lacked adequate policies, procedures and controls to identify differences between the DLA NDSTF collections and disbursements recorded by U.S. Treasury source systems and the U.S. Treasury Central Accounting Reporting System (CARS) and evaluate whether transactions recorded in the general ledger reconcile to U.S. Treasury. The matters identified related to FBwT are further described in Appendix B.
- IV. **Leases** – Leases represent agreements which convey the right for DLA NDSTF to control the use of an underlying asset of another entity for a period of time. DLA NDSTF's process to implement SFFAS 54, *Leases*, did not have adequate procedures and controls to ensure the completeness of the population used in their lease evaluation. The matters identified related to Leases are further described in Appendix B.

DLA NDSTF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DLA NDSTF's response to the findings identified in our audit and described in the accompanying Management's Response to Audit Reports dated February 21, 2025. DLA NDSTF's response was not subjected to the other auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.



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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2025 on our tests of DLA NDSTF's compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DLA NDSTF's compliance.

Ernst & Young LLP

February 21, 2025

Appendix A – Material Weaknesses

I. Inventory

The DLA NDSTF's inventory is comprised of strategic and critical materials that can be used in times of national emergencies, including ores, metals, and minerals. DLA NDSTF's controls and processes did not exist or were not operating in several significant areas, specifically:

A. Lack of or Inadequate Policies, Procedures and Controls Over Inventory Processes. DLA NDSTF lacked or did not have adequate policies, procedures and controls, including the design of controls, over the following:

- **Physical Inventory Counts.** DLA NDSTF did not design and document internal controls over physical inventory counts to ensure that variances identified during counts are properly evaluated, which includes assessing the impact of the variances identified to the uncounted inventory items. Variance thresholds were established only by using the weight discrepancies without considering the monetary impact and therefore weight discrepancies below the variance threshold with financially material impacts may not be adjusted for.
- **Inventory Recorded in the Appropriate Period.** DLA did not have policies and procedures in place to record transactions in the period that the transaction occurred or to accrue for transactions that occurred but were not posted at period-end.
- **Inventory Capitalization.** DLA NDSTF did not formalize its inventory capitalization policy and did not design, document and consistently implement procedures and internal controls to ensure that all appropriate purchase costs incurred in acquiring inventory are identified and capitalized in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*.
- **Appropriations Used for Inventory Purchases.** DLA NDSTF lacked policies, procedures and controls to properly account for the amount of appropriations used to purchase inventory received during the fiscal year, in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.
- **SFFAS No. 48 Implementation.** DLA NDSTF lacked adequate controls to ensure that the information used to calculate deemed cost was accurate as part of its SFFAS No. 48 implementation.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

A. Lack of or Inadequate Policies, Procedures and Controls Over Inventory Processes.

- **Physical Inventory Counts.** Design and implement controls over physical inventory counts. The controls should be designed to review adjustments recorded for completeness and accuracy and to assess the monetary impact of variances, individually and in the aggregate across the entire inventory balance.

- **Inventory Recorded in the Appropriate Period.** Design and implement policies and procedures, including controls, to process and post transactions to the correct period in the general ledger and ensure that an accrual is recorded at period-end for transactions that should be posted to reflect recording in the proper period.
- **Inventory Capitalization.** Ensure that all costs to bring inventory to its current condition and location are properly capitalized and that inventory received from federal entities without reimbursement is properly valued in accordance with U.S. GAAP.
- **Appropriations Used for Inventory Purchases.** Design and implement policies and procedures, including controls, to identify business events that drive recognition of appropriations used and reconcile the business events to the activity within the account.
- **SFFAS No. 48 Implementation.** Enhance internal controls in order to sufficiently detect errors as part of the review process.

II. Accounts Payable and Expenses

AP consists of amounts owed to vendors. Expenses are incurred and recognized when DLA NDSTF obtains goods and services from the public or other federal entities. Undelivered Orders (UDOs) represent the amount of goods and/or services ordered which have not been received. AP, expenses and UDOs fall within the scope of DLA NDSTF's procure to pay process. DLA NDSTF's controls and processes did not exist or were not operating in several significant areas, specifically:

A. Lack of or Inadequate Policies, Procedures and Controls Over UDOs, AP, Expense and Cash Disbursement Processes. DLA NDSTF lacked or did not have adequate controls, including the design of controls, over the following:

- **UDOs.** DLA NDSTF lacked controls to approve and record obligations in a timely manner; controls to record upward and downward adjustments to UDOs accurately and timely; and controls to review that purchase order information was recorded accurately and in the proper period.
- **Expenses, AP and Cash Disbursements.** DLA NDSTF had inadequate controls to ensure that transactions, including accounts payable, expenses and cash disbursements, are recorded timely and in the proper period, are appropriately accrued for, and reviewed prior to payment.
- **AP Adjustments.** DLA NDSTF lacked policies, procedures and controls to appropriately document their accounting methodology to reclassify negative payables balances from AP and to detect that all adjustments were completed accurately.
- **Operating Expense Adjustments.** DLA NDSTF lacked controls to ensure that capitalizable costs that were improperly recorded as operating expenses were corrected and accurately presented in the financial statements.
- **Inter-Entity Costs.** DLA NDSTF lacked policies, procedures and controls to evaluate whether the cost of inter-entity support services it recognized reasonably represented the actual costs incurred, in accordance with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. Lack of or Inadequate Controls Over UDOs, AP, Expenses and Cash Disbursement Processes.

- **UDOs.** Design and implement controls to approve and record obligations in a timely manner; controls to record upward and downward adjustments to UDOs accurately and timely; controls to review and close invalid UDOs in a timely manner; and controls to validate that the purchase order information is recorded accurately in order to record the obligation in the correct period.
- **Expense, AP and Cash Disbursements.** Design and implement controls to record expenses when goods and services are received; controls to post goods receipts in a timely manner; and controls to review invoices prior to payment.
- **AP Adjustments.** Design and implement policies, procedures and controls to ensure that the analysis and review of negative payable adjustments are appropriate, complete and accurate.
- **Operating Expense Adjustments.** Design and implement controls to ensure that costs are appropriately capitalized or expensed for proper presentation in the financial statements.
- **Inter-Entity Costs.** Design and implement controls to evaluate whether the amount of inter-entity costs recognized reasonably represent actual costs allocable to DLA NDSTF or if an adjustment is needed to account for differences between billed and actual costs.

III. Financial Reporting

Financial reporting encompasses all aspects of operations affecting DLA NDSTF's ability to produce reliable financial statements and disclosures. This process starts with establishing an effective governance structure to identify and assess risk and continues with developing a control environment that is effective and efficient to manage identified risks. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. However, deficiencies existed in DLA NDSTF's processes related to the accumulation and presentation of their financial position and results of operations.

A. Lack of or Inadequate Documentation of Financial Reporting and Budgetary Policies, Procedures, and Controls. DLA NDSTF did not document the end-to-end process related to financial reporting and funds management.

- **Financial Reporting.** The documentation did not include the processes to review and reconcile system generated reversals of prior year journal vouchers (JVs) which impact opening balances.
- **Funds Management.** The documentation did not sufficiently include a description of the process to record budget authority or transfers received.

- B. Lack of Controls Over Compliance with the Treasury Financial Manual (TFM) United States Standard General Ledger (USSGL).** DLA NDSTF did not have controls to configure the general ledger posting logic to be compliant with the USSGL and apply TFM updates timely, nor did DLA NDSTF have controls to link business events to the correct posting logic. As a result, transactions were not recorded appropriately. For example, DLA NDSTF inappropriately used a general ledger account (negative payables) to track payments made without goods received and inappropriately combined entries to record the movement of budgetary funds through the apportionment and allotment process, which should be recorded separately. In addition, the posting logic for various inventory transactions, such as goods being sold and returned into inventory, did not meet the corresponding TFM business events.
- C. Lack of or Inadequate Controls Over Financial Reporting Processes.** DLA NDSTF lacked or did not have adequate controls, including the design of controls, over the following:
- **Budgetary Resources.** DLA NDSTF did not have adequately designed controls, including monitoring of budgetary processes performed by the Office of the Under Secretary of Defense – Comptroller (OUSDC), to prevent or detect obligations incurred prior to or in excess of available budgetary resources.
 - **Contingent Liabilities.** Controls that were implemented were not adequately designed as they did not include sufficient procedures to verify the data used to assess contingent liabilities were complete and accurate.
 - **Financial Statement Close Process.** DLA NDSTF did not have adequately designed controls around the annual close and reconciliation processes, such as the following: the monthly or quarterly reconciliation between the unadjusted trial balance (UTB) and the adjusted trial balance (ATB) was not performed sufficiently and timely and did not consider system generated JVs; the information used in the reconciliation of UTB to ATB was not complete and accurate; and the review of the procedures performed during the financial statement close process was not adequate.
 - **Budgetary to Proprietary Tie Points.** DLA NDSTF did not have adequately designed controls around the tie-point reconciliation process. DLA NDSTF does not have procedures to assess the completeness or accuracy of reports or data used in the execution of its key control activities within the reconciliation process.
 - **Monthly or Quarterly JV Adjustments.** DLA NDSTF did not have controls to review and approve JV adjustments recorded in the general ledger and Defense Departmental Reporting System (DDRS) by DLA NDSTF and Defense Finance and Accounting Service (DFAS) for completeness, accuracy and validity. As a result, a comprehensive listing of adjustments made was not maintained to allow DLA NDSTF to determine the appropriateness of each JV adjustment, including those recorded by their service provider.
 - **Financial Statement Review Process.** The level of review of the financial statements and footnote disclosures was insufficient to detect and correct misstatements in the financial statements and related disclosures. DLA NDSTF lacked documentation to support the review of the completeness and accuracy of the data utilized to support the footnote disclosures and supporting schedules of the Agency Financial Report (AFR).

- **Transactions Recorded Using Elevated Privileges.** DLA NDSTF did not have controls to review and approve transactions recorded with elevated access privileges.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. Lack of or Inadequate Documentation of Financial Reporting and Budgetary Policies, Procedures, and Controls.

- **Financial Reporting.** Document the financial reporting process, to accurately reflect all aspects of the end-to-end process, including processes and controls performed to reconcile prior year activity to opening balances.
- **Funds Management.** Document the funds management process and controls to accurately reflect all aspects of the end-to-end budget to execute process, including process and controls performed by DLA NDSTF and service providers.

B. Lack of Controls over Compliance with the TFM USSGL. Design and implement controls that: configure posting logic in the general ledger to be compliant with the USSGL; apply TFM updates in a timely manner; link business events to the correct posting logic; and post transactions as intended.

C. Lack of or Inadequate Controls over Financial Reporting Processes.

- **Budgetary Resources.** Design and implement controls to ensure budgetary resources are appropriately apportioned in order to prevent and detect obligations from being incurred against appropriations that have not been apportioned from OMB.
- **Contingent Liabilities.** Enhance control activities to verify the completeness and accuracy around system generated reports used in the execution of controls to identify, estimate, record and disclose contingent liabilities in the financial statements.
- **Financial Statement Close Process.** Develop and implement controls around the annual close and reconciliation process, which includes a complete, accurate and timely reconciliation of the UTB to the ATB.
- **Budgetary to Proprietary Tie Points.** Design and implement controls to review the completeness and accuracy of the data used in the budgetary to proprietary tie point reconciliation process.
- **Monthly or Quarterly JV Adjustments.** Design and implement controls to review and approve JV adjustments recorded in the general ledger and DDRS by DLA NDSTF and DFAS for completeness, accuracy and validity prior to posting.
- **Financial Statement Review Process.** Design and implement controls to sufficiently review the quarterly and annual financial statements and footnote disclosures; to detect and correct misstatements; and to review that the financial statements are complete and accurate.

- **Transactions Recorded Using Elevated Privileges.** Design and implement controls to review and approve transactions recorded with elevated access privileges to assess for completeness, accuracy and validity. The review and approval should be performed by authorized individuals such as financial management.

IV. Oversight and Monitoring

Oversight and monitoring relate to DLA NDSTF's lack of establishment and implementation of a sufficient enterprise-wide control environment as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management Internal Control*.

- A. **Lack of or Inadequate Documentation Around the OMB A-123 Program.** DLA NDSTF did not document the end-to-end process to oversee and monitor the enterprise-level risks and controls, including their OMB A-123 program. Specifically, DLA NDSTF had not performed and documented a sufficient risk assessment at the enterprise and business process level to assess and document reporting matters, such as the complexity of programs, accounting estimates, and extent of manual processes; a complete and accurate population of its assessable units, business processes and relevant controls that are responsive to and mitigate risks, including fraud risks; and an assessment and plan for timely remediation of audit findings.
- B. **Lack of or Inadequate Controls Around System Generated Reports.** DLA NDSTF lacked or did not have adequate controls to verify the accuracy and completeness of system generated reports required in the execution of controls.
- C. **Insufficient Oversight and Monitoring of Third-Party Service Providers.** Service organizations undergo examinations of internal controls over systems and processes supporting their customers. The results of these examinations are documented in System and Organization Controls 1 (SOC 1) reports and include the independent service auditor's report, the service organization's management assertions and identified Complementary User Entity Controls (CUECs) that users of the service organization (e.g., DLA NDSTF) should have in place to supplement the service organization's internal controls. DLA NDSTF did not perform sufficient oversight and monitoring of SOC 1 reports and did not sufficiently design, implement or monitor CUECs over its service providers.

Recommendations

Consider the following corrective actions related to the conditions described above:

- A. **Lack of or Inadequate Documentation Around the OMB A-123 Program.** Document the end-to-end process to oversee and monitor the enterprise-level risks and controls, including the OMB A-123 program. Perform and document a sufficient risk assessment at the enterprise and business process level to assess and document reporting matters. Document a complete and accurate population of its assessable units and business processes. Identify and assess the risks in each business process and design and implement relevant controls that are responsive to and mitigate these risks, including fraud risks. Perform an assessment of audit findings and establish and execute the plan to remediate the audit findings timely.

- B. Lack of or Inadequate Controls Around System Generated Reports.** Design and implement controls to verify the accuracy and completeness around system generated reports used in the execution of controls. For example, the procedures should include footing system generated reports; performing a tie-out of system generated reports to the general ledger; verifying that the parameters used to generate the reports or data are appropriate; and selecting a sample of transactions or balances in the report and validating that the transactions are accurate.
- C. Insufficient Oversight and Monitoring of Third-Party Service Providers.** Design and implement controls around the SOC 1 review process and validate that CUECs are properly identified, designed and operating effectively.

V. Information Systems

Information systems controls are a critical component of the federal government's operations to manage the integrity, confidentiality and reliability of its programs and activities and assist with reducing the risk of errors, fraud or other illegal acts. Information management security, access controls, segregation of duties, configuration management, and IT operations controls are fundamental to the integrity of financial data and can help manage risks such as unauthorized access, changes to critical data, and prevent compromised data. The nature, size and complexity of DLA NDSTF's operations require DLA NDSTF to administer its programs under a decentralized business model by using numerous geographically dispersed operating locations and complex, extensive information systems.

Control deficiencies in the design and operation of financially significant information systems continue to occur in the information systems environment controls. The deficiencies relate to the following areas:

- Access controls
- Configuration management controls
- Segregation of duties controls
- Security management/governance over implementation of security controls
- IT operations controls

Access Controls

Access controls include those related to protecting system boundaries, user identification and authentication, authorization, protecting sensitive system resources, audit and monitoring, and physical security. When properly implemented, access controls can help ensure that critical systems assets are physically safeguarded and that logical access to sensitive computer programs and data is granted to users only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified access control weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment and financial applications. Absent or ineffective preventative controls and compensating detective controls expose financial systems and financial data to inappropriate access, unauthorized inputs and inaccurate entries, resulting in significant risk to the financial statements.

The identified access control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- For a selection of account management controls for financially significant applications, user access and activity were not monitored and tracked for routine access recertification, revalidation of privileged access and terminated or inactive users.
- For a selection of audit logging controls for one financially significant application, audit logs, security violations and sensitive user activity were not tracked, monitored, resolved or configured appropriately within systems.

Configuration Management Controls

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. By implementing configuration management controls, DLA NDSTF can ensure that only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified configuration management and change control weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls expose financial systems and financial data to unexpected impact from changes, inappropriate or unauthorized changes, and application errors in production.

The identified change control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- For one financially significant application, users had access privileges enabling them to bypass the configuration management process and make changes directly to production.
- For financially significant applications, system configurations, baseline code, and production environments were not monitored and inspected for unauthorized changes.
- For a selection of changes to financially significant applications, both routine and emergency changes were not reviewed, approved, and tested in a non-production environment prior to release. The impact and functionality of configuration changes were not assessed prior to implementation.

Segregation of Duties Controls

An effective control environment guards against a particular user having incompatible functions within a system. Segregation of duties controls provide policies, procedures and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations and, thereby, conducting unauthorized actions or gaining unauthorized access to financial management information systems.

The identified segregation of duties and conflicting role weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls around segregation of duties allows users to circumvent processes and automated controls in place, obtain unnecessary or elevated access, and impact the integrity of financial data.

The identified weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- Segregation of duties within the user provisioning process were not completed consistently across financially significant applications. Conflicting roles were not inspected and rationalized prior to provisioning. Management did not periodically monitor segregation of duties conflicts that consider both IT and business process roles and activities.
- Application program management has not completely identified sensitive (financial transactions) roles in order to implement appropriate segregation of duties processes and controls.

Security Management / Governance Over Implementation of Security Controls

An entity-wide information security management and internal control program is the foundation of a security control structure to address security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures and monitoring the effectiveness of these procedures. Without a well-designed 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.

The identified security management and governance weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls around internal controls and governance compound data integrity risk by not monitoring third parties and not remediating known gaps timely.

The identified security management control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- SOC 1 reports were not monitored and reviewed to assess CUECs, including validation of whether management's internal controls relevant to the CUECs, are designed, implemented and operating effectively.
- In the absence of an overarching internal control program that complies with OMB Circular A-123, management's internal control procedures did not identify all financially significant risks, establish and implement controls, track known risk exposure, and remediate control gaps.

IT Operations Controls

Effective IT operations controls support the reliability of various aspects of operating the IT environment related to the complete and accurate processing of transactions and the protection of information used in that processing. IT operations involve computer job management tasks related to scheduling and running jobs (programs), monitoring the successful completion of those jobs, and detecting and addressing job failures timely. Relevant jobs may accept, process, and move data from one IT application to another via system interfaces for inclusion in financial reporting. IT administrators may also utilize programs or software that supports maintenance of the IT environment or data, including tasks responsible for backing up financially relevant programs and data.

The identified IT operations weaknesses in aggregate represent a significant risk to the DLA NDSTF financial statements, IT environment, and financial applications. Absent or ineffective controls around IT operations increases the risk that issues with programs that are not scheduled correctly or don't process to completion, may not be addressed, or may be addressed inappropriately, and hardware or software issues will result in the loss of financially relevant data or the ability to accurately process that data.

The identified IT operations control weaknesses that represent a significant risk to the DLA NDSTF financial management information systems environment include the following:

- Contingency planning (CP) processes and controls failed in allowing management to backup system data.

Recommendations

Implement controls to address deficiencies in access controls, configuration management, segregation of duties, security management procedures and IT operations to include:

Access Controls

- Routinely monitor and revalidate access needs for business users, privileged users, and terminated and inactive users.
- Monitor user activity, identify and audit security violations, and assess privileged and sensitive users and transactions.

Configuration Management Controls

- Segregate conflicting roles between development and production environments.
- Review, approve, and test changes prior to implementation, to include user testing and functionality assessments.
- Monitor source code, configurations, and production environments for unauthorized changes.

Segregation of Duties Controls

- Identify, periodically review and document sensitive and conflicting roles, enforce established segregation of duties processes, and assess conflicts during account provisioning and management. Segregate conflicting roles where possible, and if unavoidable, document business rationale and monitor user activity.

Security Management/Governance Over Implementation of Security Controls

- Establish a process to evaluate and incorporate service provider reports, findings, and controls into management's security documentation, governance process, and application control environment.
- Perform an IT risk assessment in conjunction with the implementation of an enterprise OMB Circular A-123 internal control program. Document risks and controls in place, identify gaps, and complete corrective actions to strengthen the internal control environment. Improve documentation, test and validate controls, and remediate findings.

IT Operations Controls

- Design and implement controls to periodically backup and monitor system data to successfully respond to incidents and prevent the permanent loss of data.

Appendix B – Significant Deficiencies

I. Revenue

Revenue is earned when DLA NDSTF sells goods to the public. The amounts of these transactions make it critical for DLA NDSTF to properly record and reconcile these transactions. However, DLA NDSTF lacked adequate policies, procedures and controls to ensure that revenue and cost of goods sold are recorded in accordance with U.S. GAAP.

- A. Improper Revenue Recognition in Accordance with Accounting Standards.** DLA NDSTF lacked policies, procedures and controls to properly document and review relevant facts and apply the appropriate revenue accounting under SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, which impacted the revenue and gross cost accounts on the statement of net cost.

Recommendations

Consider the following corrective actions related to the conditions described above:

- A. Improper Revenue Recognition in Accordance with Accounting Standards.** Design and implement revenue recognition policies, procedures and controls in accordance with SFFAS No. 7. The policies should include considering the appropriate relevant facts to determine that revenue and costs of goods sold are properly recorded and presented in the financial statements and ensure that sales are subject to a sufficient level of management review.

II. Environmental Liabilities

ELs are comprised of cleanup costs associated with the restoration of sites that DLA NDSTF manages. However, we identified the following deficiency in internal controls, which we consider to be a significant deficiency.

- A. Inadequate Review of Data Used in the Execution of Controls.** DLA NDSTF did not have procedures to assess the completeness or accuracy of reports or data used in the execution of its key control activities. As a result, DLA NDSTF was unable to demonstrate that control activities were operating effectively.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

- A. Inadequate Review of Data Used in the Execution of Controls.** Design and implement formalized controls that adequately address the risks of using incomplete or inaccurate data used in the process of estimating environmental liabilities.

III. Fund Balance with Treasury

FBwT represents the aggregate amount of funds in DLA NDSTF's account with U.S. Treasury. TFM Chapter 5100, Section 5125 requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations. However, deficiencies existed related to DLA NDSTF's process to record and reconcile transactions involving FBwT.

- A. Lack of or Inadequate Documentation of FBwT Accounting Policies, Procedures, and Controls.** DLA NDSTF did not document the end-to-end process to account for, monitor, and report FBwT and related transactions.
- **Policies and Procedures.** DLA NDSTF did not completely and accurately document the processes and controls implemented to reconcile FBwT, including those related to the review and resolution of Statement of Differences (SOD) transactions and other reconciling items.
 - **System Generated Reports.** DLA NDSTF did not document the procedures performed to assess the completeness and accuracy of source information used to execute the FBwT reconciliation.
- B. Inadequate Controls for the Reconciliation of FBwT Between the General Ledger and U.S. Treasury Source Systems.** DLA NDSTF did not have adequate controls to timely identify, review and record collections and disbursements reported in U.S. Treasury source systems that were not recorded in the U.S. Treasury CARS.

Recommendations

Consider the following corrective actions related to the conditions described above:

- A. Lack of or Inadequate Documentation of FBwT Accounting Policies, Procedures, and Controls.**
- **Policies and Procedures.** Regularly update process cycle documentation to reflect the end-to-end process for FBwT and describe the processes and controls that are implemented. The documentation should include the process to research and resolve differences between U.S. Treasury, disbursing system records, and accounting system records on a timely basis.
 - **System Generated Reports.** Document the procedures performed to assess the completeness and accuracy of source information used to execute the FBwT reconciliation.
- B. Inadequate Controls for the Reconciliation of FBwT Between the General Ledger and U.S. Treasury Source Systems.** Design and implement procedures to completely and accurately reconcile FBwT, including demonstrating that all differences between U.S. Treasury source systems and U.S. Treasury CARS are appropriately identified, reviewed and recorded to the general ledger timely and accurately.

IV. Leases

Leases represent agreements which convey the right for DLA NDSTF to control the use of an underlying asset of another entity for a period of time. The implementation of SFFAS 54, *Leases*, requires that entities appropriately identify and evaluate all lease agreements. However, deficiencies exist in DLA NDSTF's procedures to identify a complete population of contracts that may contain a potential lease agreement.

A. Inadequate Review of Contract Populations. DLA NDSTF's process for identifying and reporting leases under SFFAS 54 does not include adequate procedures to ensure the completeness of the population of contracts used in their lease evaluation.

- **Policies and Procedures.** DLA NDSTF's procedures did not consider contracts entered into in prior years with no obligation activity recorded during the current fiscal year, such as stale unliquidated orders (ULOs).
- **Transaction Activity Review.** DLA NDSTF's procedures did not consider activity in other general ledger accounts, such as expenses that were not recorded as rent expense, that could indicate a leasing arrangement.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

A. Inadequate Review of Contract Populations.

- **Policies and Procedures.** Develop policies and procedures to review populations of unliquidated obligations to ensure agreements with no transaction activity in the current year have been evaluated for leases.
- **Transaction Activity Review.** Develop and implement policies and procedures to consider activity in other general ledger accounts, such as expenses that are not recorded as rent expense, that could indicate a leasing arrangement.



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Report of Independent Auditors on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Director of the Defense Logistics Agency and the
Inspector General of the Department of Defense

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the National Defense Stockpile Transaction Fund of the Defense Logistics Agency (hereafter referred to as the DLA NDSTF), which comprise the balance sheet as of September 30, 2024, and the related statements of net cost and changes in net position and statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”), and our report dated February 21, 2025 expressed an unmodified opinion thereon that included an Emphasis of Matter section regarding the DLA NDSTF’s establishment of beginning balances for Inventory and related property, net using deemed cost in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* in fiscal year 2024.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether DLA NDSTF’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-02 as well as instances of noncompliance in which DLA NDSTF’s financial management systems did not substantially comply with the Section 803(a) requirements of FFMIA and which are described below.



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FFMIA

Under FFMIA, we are required to report whether the DLA NDSTF's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DLA NDSTF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Federal financial management system requirements

EY identified as part of the Information Systems material weakness, contained in the Report on Internal Control Over Financial Reporting, noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with user access, configuration management/change controls, segregation of duties, security management and IT operations. These financial system deficiencies prevent DLA from being compliant with federal financial management system requirements and inhibit DLA's ability to prepare complete and accurate financial reporting.

(b) Noncompliance with applicable federal accounting standards

EY identified noncompliance with federal accounting standards during our testing, which was included in our Report on Internal Control Over Financial Reporting.

(c) Noncompliance with USSGL posting logic at the transaction level

EY identified noncompliance with USSGL posting logic during our testing, which was included in our Report on Internal Control Over Financial Reporting.

In addition, as referenced in the FY 2024 DLA Management Assurances Letter and in *Summary of Financial Statement Audit and Management Assurances* within the Other Information section of the FY 2024 DLA NDSTF Agency Financial Report, DLA self-identified that their financial management systems do not allow for the DLA to substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.



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FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the entity's system of internal control, and prepare related reports. The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (commonly referred to as the "GAO Green Book") issued under the authority of FMFIA, establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring. To determine if an entity's internal control system is effective, the Green Book requires management to assess the design, implementation and operating effectiveness of the five components of the entity's internal control system.

DLA has not implemented a formal internal control program that would allow it to substantially comply with FMFIA and the related GAO Green Book requirements, leading to inadequate control environment, risk assessment and monitoring processes.

Anti-Deficiency Act

The Anti-Deficiency Act (ADA) Title 31 U.S.C. Section 1341 prohibits federal employees from obligating funds in excess of an appropriation or before funds are available, and from accepting unauthorized voluntary services. As required by Federal Law (OMB Circular A-11, *Management's Responsibility for Internal Control*, Section 120), an apportionment is an OMB-approved plan to use budgetary resources that is legally binding. Any obligations and expenditures (disbursements) that exceed an apportionment are a violation of, and are subject to reporting under, the ADA.

During FY 2023, DLA NDSTF identified that it may have a potential ADA violation related to obligations incurred against a multi-year appropriation prior to OMB apportionment. DLA NDSTF completed their formal investigation during FY 2024, however a final determination from the Office of the Under Secretary of Defense (OUSD) Office of General Counsel is still pending.

DLA NDSTF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DLA NDSTF's response to the findings identified in our audit and described in the accompanying Management's Response to the Audit Reports dated February 21, 2025. DLA NDSTF's response was not subjected to



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the other auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2025 on our consideration of DLA NDSTF's internal control over financial reporting (internal control). The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of DLA NDSTF's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DLA NDSTF's internal control.

Ernst & Young LLP

February 21, 2025

MANAGEMENT'S RESPONSE TO AUDIT REPORTS



**DEFENSE LOGISTICS AGENCY HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221**

February 21, 2025

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Fiscal Year 2024 Financial Statement Audit - National Defense Stockpile
Transaction Fund

Thank you for the opportunity to comment on Ernst & Young, LLP's Independent Auditor Reports on the Defense Logistics Agency's National Defense Stockpile Transaction Fund (NDSTF) financial statements and accompanying disclosures for FY 2024. We are pleased with the overall results of the audit, and are committed to addressing any identified areas for improvement.

Ernst & Young LLP's expertise and insights have been invaluable. We are especially grateful for their professionalism, experience, and diligence in issuing an unmodified opinion, reflecting the integrity of our financial reporting. We solidify our commitment to supporting our warfighters and our Nation through efficient, accountable financial and resource management.


SUSAN J. GOODYEAR
Director, DLA Finance
Chief Financial Officer

INTRODUCTION TO THE DLA NDSTF PRINCIPAL FINANCIAL STATEMENTS

The DLA NDSTF principal financial statements and the accompanying notes (financial statements) included in this report are prepared pursuant to the requirements of the CFO Act of 1990 (Pub. L. 101-576) and expanded by GMRA (Pub. L. 103-356) and other applicable legislation. Other reporting requirements include the OMB Circular A-136, as amended. The responsibility for the

integrity of the financial information included in these financial statements rests with the management of DLA NDSTF. The IPA was engaged to perform the audit of DLA NDSTF's financial statements and provided an unmodified opinion. The Audit Report, and Management's Response to the Audit Report, accompany the financial statements.

The DLA NDSTF financial statements consist of the following:

The Balance Sheet presents those resources owned or managed by DLA NDSTF that represent future economic benefits (assets), amounts owed by DLA NDSTF that will require payments from those resources or future resources (liabilities), and residual amounts retained by DLA NDSTF comprising the difference (net position) as of September 30, 2024.

The Statement of Net Cost presents the net cost of DLA NDSTF operations for the year ended September 30, 2024. DLA NDSTF's net cost of operations is the gross cost incurred by DLA NDSTF activities, less any exchange revenue earned and inter-entity eliminations from DLA NDSTF activities.

The Statement of Changes in Net Position presents the change in DLA NDSTF's net position resulting from the net cost of DLA NDSTF's operations, budgetary financing sources, and other financing sources for the year ended September 30, 2024.

The Statement of Budgetary Resources presents how and in what amounts budgetary resources were made available to DLA NDSTF, the status of these resources, and the net outlays of budgetary resources for the year ended September 30, 2024.

The Notes to the Principal Financial Statements provide detail and clarification for amounts in the principal financial statements.



LIGHTNING LAUNCH

Sailors launch an F-35C Lightning II from the aircraft carrier USS George Washington during operations in the Atlantic Ocean, Jan. 17, 2024. **Photo By:** Navy Petty Officer 3rd Class August Clawson

Balance Sheet

As of September 30, 2024 (dollars in thousands)

FY 2024

ASSETS

Intragovernmental

Fund Balance with Treasury (Note 2)	\$	540,263
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Total Intragovernmental

540,263

Other than Intragovernmental

Accounts Receivable		833
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Inventory and Related Property, Net (Note 3)		415,780
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General Property, Plant and Equipment, Net (Note 4)		130
---	--	-----

Advances and Prepayments		1,257
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Total Other than Intragovernmental

418,000

TOTAL ASSETS

\$ 958,263

LIABILITIES (Note 5)

Intragovernmental

Accounts Payable	\$	930
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Other Liabilities (Note 6)		239
----------------------------	--	-----

Total Intragovernmental

1,169

Total Other than Intragovernmental

Accounts Payable		20,490
------------------	--	--------

Environmental and Disposal Liabilities (Note 7)		13,449
---	--	--------

Federal Employee Salary, Leave, and Benefits Payable (Note 6)		857
---	--	-----

Pension and Post-Employment Benefits Payable (Note 6)		1,804
---	--	-------

Total Other than Intragovernmental

36,600

TOTAL LIABILITIES

37,769

NET POSITION

Unexpended Appropriations - Funds from Other than Dedicated Collections	\$	175,760
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Cumulative Results of Operations - Funds from Other than Dedicated Collections		744,734
--	--	---------

TOTAL NET POSITION

920,494

TOTAL LIABILITIES AND NET POSITION

\$ 958,263

The accompanying notes are an integral part of these statements.

Statement of Net Cost

For the Year Ended September 30, 2024 (dollars in thousands)

FY 2024

Strategic Materials Operations, Readiness & Support

Gross Cost	\$	63,239
Less: Earned Revenue		(37,896)
Net Cost		25,343
NET COST OF OPERATIONS	\$	25,343

The accompanying notes are an integral part of these statements.



PORT VISIT

The aircraft carrier USS Theodore Roosevelt arrives in Laem Chabang, Thailand, April 24, 2024. The Theodore Roosevelt is in Thailand for a scheduled port visit, supporting operational readiness and regional alliances. **Photo by:** Navy Seaman Apprentice Aaron Haro Gonzalez

Statement of Changes in Net Position

For the Year Ended September 30, 2024 (dollars in thousands)

FY 2024

Unexpended Appropriations

Beginning Balance	\$	234,408
Appropriations Received		50,000
Appropriations Used		(108,648)
Net Change in Unexpended Appropriations		(58,648)
Total Unexpended Appropriations: Ending Balance	\$	175,760

Cumulative Results of Operations

Beginning Balance	\$	740,418
Adjustments:		
Changes In Accounting Principles (Note 11)		(79,895)
Beginning Balance as Adjusted		660,523
Appropriations Used		108,648
Imputed Financing		906
Net Cost of Operations		25,343
Net Change in Cumulative Results of Operations		84,211
Cumulative Results of Operations: Ending Balance		744,734
TOTAL NET POSITION	\$	920,494

The accompanying notes are an integral part of these statements.



REFUEL READY

Air Force Airman 1st Class Anthony Tolver, left, and Tech. Sgt. Fernando Brome prepare a KC-135 for refueling operations over Europe. **Photo By:** Air Force Airman 1st Class Christopher Campbell

Statement of Budgetary Resources

For the Year Ended September 30, 2024 (dollars in thousands)

FY 2024

BUDGETARY RESOURCES

Unobligated Balance from Prior Year Budget Authority, Net (Note 9)	\$ 469,638
Appropriations	50,000
Spending Authority from Offsetting Collections	41,221
TOTAL BUDGETARY RESOURCES	\$ 560,859

STATUS OF BUDGETARY RESOURCES

New Obligations and Upward Adjustments	\$ 238,536
Unobligated Balance, End of Year:	
Apportioned, Unexpired Accounts	103,703
Unapportioned, Unexpired Accounts	218,620
Unexpired Unobligated Balance, End of Year	322,323
Total Unobligated Balance, End of Year	322,323
TOTAL BUDGETARY RESOURCES	\$ 560,859

OUTLAYS, NET

Outlays, Net	\$ 89,539
AGENCY OUTLAYS, NET	\$ 89,539

The accompanying notes are an integral part of these statements.



SPECIAL DELIVERY

USS Dewey (DDG 105) receive supplies during a replenishment with USNS Big Horn (T-AO 198) in the South China Sea.

Photo By: U.S. Navy Petty Officer 1st Class Gregory Johnson

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

Created in 1961, Defense Logistics Agency (DLA) is a component of the U.S. Department of Defense (DoD) and reports to the Office of the Under Secretary of Defense (OUSD) for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. DLA provides material and services to components of DoD (including the U.S. Army, Navy, Air Force, Marine Corps and Space Force), other Federal agencies, and non-federal entities. DLA accomplishes its mission and goals through the operations of the DLA Working Capital Fund (WCF), DLA General Fund (GF), and DLA National Defense Stockpile Transaction Fund (NDSTF).

Initially authorized by Strategic and Critical (S&C) Materials Stock Piling Act (50 U.S.C. §98, et seq.) (the Act), the National Defense Stockpile is a physical reserve of definite quantities of S&C materials, owned by the U.S. Government, authorized for use during times of National Emergencies. Executive Order 12626, issued February 25, 1988, designated the Secretary of Defense as the NDS Manager. The Secretary of Defense delegated the management responsibilities to the OUSD for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. The operational activities of the NDS are delegated to the Director of DLA.

The DLA Strategic Materials program is a distinct revolving fund which operates under the Act. Under the Act, critical materials are stockpiled in the interest of National Defense. The NDS Manager administers the acquisition, storage, management, and disposal of the stockpile. The National Defense Authorization Act (NDAA) authorized the NDS Manager to acquire materials determined to be strategic and critical to meet defense, industrial, and essential civilian needs of the U.S. The legislation further provided authority to dispose of certain materials, with proceeds deposited in the fund to finance future stockpile operating costs and procurement of replenishment materials.

These financial statements and accompanying notes herein only refer to the activities of the component reporting entity, DLA NDSTF. A reporting entity is an organization that issues its own financial statements because either there is a statutory or administrative requirement to prepare financial statements, or they choose to prepare one. A consolidation entity is an organization that should be consolidated in the financial statements of a reporting entity. Disclosure entities are not consolidation entities, but information about the entity is needed for accountability purposes and to meet the federal financial reporting objectives. Related parties are individuals or entities where an existing relationship provides either DLA NDSTF or the other party the ability to exercise significant influence over the other party's policy decisions. There are no consolidation entities that DLA NDSTF includes in its financial statements. Additionally, no disclosure entities or related parties have been identified by DLA NDSTF.

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

B. Basis of Presentation and Accounting

The DLA NDSTF fiscal year ends September 30. The accompanying financial statements account for all resources for which DLA NDSTF is responsible. These financial statements present the financial position, results of operations, changes in net position, and budgetary resources of DLA NDSTF, as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other applicable legislation. The financial statements are prepared from the books and records

of DLA NDSTF, in accordance with U.S. Generally Accepted Accounting Principles (GAAP), promulgated by the Federal Accounting Standards Advisory Board (FASAB)³, and presented in the format prescribed by the Office of Management and Budget (OMB) Circular A-136 and in the following paragraphs.

The DLA NDSTF financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred. Budgetary accounting is based on concepts set forth by OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, as amended, which provides instructions on budget execution. Budgetary accounting is designed to recognize the budgetary resources and the related status of those budgetary resources, including the obligation and outlay of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction.

Statement of Net Cost: The Statement of Net Cost presents the net cost of operations to provide an overview of DLA NDSTF's financial performance over the fiscal year. The Statement of Net Cost accumulates costs and revenues for one responsibility segment, the Strategic Materials (SM) program. The SM program fulfills DLA NDSTF's mission and operational objectives by decreasing and precluding dependence on foreign sources or single points of failure for strategic materials during times of national emergency. The Statement of Net cost is prepared using the accrual basis of accounting.

Statement of Budgetary Resources: The Statement of Budgetary Resources incorporate Federal budgetary accounting concepts, designed to control, monitor, and report on funds made available to Federal Agencies by law. The Statement of Budgetary Resources help ensure compliance with legal requirements and provide transparency regarding the usage of budgetary resources. The Statement of Budgetary Resources present the following key components for the fiscal year:

1. Budgetary Resources: Total Budgetary Re-

sources⁴ available for the fiscal year, which include unobligated balances of resources from prior years and new budgetary authority. DLA NDSTF new budgetary authority primarily consists of appropriations⁵ and spending authority from offsetting collections⁶.

2. Status of Budgetary Resources: Reports availability of budgetary resources categorized into obligated⁷ and unobligated⁸ amounts; and

3. Outlays, Net: Comprised of Outlays⁹ less Offsetting Receipts¹⁰ (cash transactions).

Intragovernmental and Other than Intragovernmental Transactions: Statement of Federal Financial Accounting Standards (SFFAS 1), *Accounting for Selected Assets and Liabilities*, distinguishes between Intragovernmental and Other than Intragovernmental assets and

3 FASAB is the official body for setting accounting standards of the U.S. Government.

4 Per OMB Circular A-11, Section 20, "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."

5 Per OMB Circular A-11, Section 20, "Appropriation means 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."

6 Per OMB Circular A-11, Section 20, "Spending authority from offsetting collections is a type of budget authority that permits obligations and outlays to be financed by offsetting collections."

7 Per OMB Circular A-11, Section 20, "Obligated amount means a legally binding agreement that will result in outlays, immediately or in the future."

8 Per OMB Circular A-11, Section 20, "Unobligated amount means the cumulative amount of budget authority that remains available for obligation under law in unexpired accounts."

9 Per OMB Circular A-11, Section 20, "Outlay means a payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions. Outlays are the measure of Government spending."

10 Per OMB Circular A-11, Section 20, "Offsetting receipts mean payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts."

liabilities. Intragovernmental assets and liabilities arise from transactions among Federal entities. Intragovernmental assets are claims other Federal entities owe to DLA NDSTF. Intragovernmental liabilities are claims DLA NDSTF owes to other Federal entities, whereas Other than Intragovernmental assets and liabilities arise from transactions with non-federal entities. The term "non-federal entities" encompasses domestic and foreign persons and organizations outside the U.S. Government. Other than Intragovernmental assets are

claims of DLA NDSTF against non-federal entities. Other than Intragovernmental liabilities are amounts that DLA NDSTF owes to non-federal entities.

The DLA NDSTF engages in transactions with other DoD and Federal entities that generate intragovernmental balances. DLA NDSTF assigns Federal and Non-Federal attributes to Intragovernmental and Other than Intragovernmental transactions based on trading partner information.



JAMBOREE SUPPORT

A service member supports the Boy Scouts of America's 2023 National Jamboree in Glen Jean, W.Va., July 23, 2023. More than 15,000 Scouts are participating in the event with more than 500 military personnel providing security, medical assistance and entertainment. **Photo By:** Army National Guard Edwin L. Wriston

Classified Activities: Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Use of Estimates: The DLA NDSTF management has made certain estimates and assumptions when reporting assets, liabilities, expenses, and related disclosures in the notes. DLA NDSTF's estimates are based on historical experience, current events, and other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist and actual results may differ from these estimates. Significant estimates reported in the financial statements include: (1) environmental and disposal liabilities and (2) FECA actuarial liability as of the date of these financial statements.

C. Public-Private Partnerships

SFFAS 49, Public-Private Partnerships: Disclosure Requirements, defines public-private partnerships as “risk sharing arrangements or transactions with expected lives greater than five years between public and private sector entities”. DLA NDSTF performed an assessment of agreements with private entities and reviewed the terms of the arrangements against risk sharing and other criteria for financial statement disclosure as provided in the standard. DLA NDSTF determined there are no public-private partnerships that meet the criteria for disclosure in FY 2024.

D. Appropriations and Funding Sources

The DLA NDSTF receives annual apportionments of spending authority from offsetting collections from OUSD based on expected sales of materials that have been deemed excess to the needs of the stockpile. The proceeds from the sale of materials are DLA NDSTF's major source of authority used to fund operations. The funds in the revolving fund do not expire but remain available for the NDS subject to Congressional and OUSD approval as part of the annual apportionment process.

For the year ended September 30, 2024, DLA NDSTF received a direct appropriation in the amount of \$50.0

million from Public Law 118-47, *Further Consolidated Appropriations Act, 2024*, for activities pursuant to the Strategic and Critical Material Stock Piling Act (50 U.S.C. 98 et seq.) The appropriations will remain available until September 30, 2026.

(Refer to Note 2, *Fund Balance with Treasury* and Note 9, *Statement of Budgetary Resources*.)

E. Fund Balance with Treasury

The DLA NDSTF does not maintain cash in a commercial bank, but rather in the U.S. Treasury. DLA NDSTF's Fund Balance with Treasury (FBwT) is the aggregate amount of funds in the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. The disbursing offices of DFAS, the U.S. Army Corps of Engineers, GSA, and the Department of State's financial service centers process DLA NDSTF's cash collections, disbursements, and adjustments.

The DLA NDSTF is the only Agency using Treasury Account Symbol (TAS) 97 4555, the NDSTF, which allows DLA to identify the transactions belonging to this fund. On a monthly basis, DLA NDSTF reconciles FBwT in the general ledger accounts to the balance in the Treasury's accounts to identify temporary differences due to timing and to correct discrepancies. The adjustments represent the undistributed disbursements and collections amounts that have been reported to Treasury, but have not yet been posted to DLA NDSTF's general ledger.

The DLA NDSTF's accounting service provider, Defense Finance and Accounting Services (DFAS), uses U.S. Treasury suspense accounts to hold transactions temporarily prior to identifying the correct appropriation. Suspense account items represent the amounts that are reported to U.S. Treasury at the Treasury Index (TI) Level (TI-17, TI-21, TI-57, TI-97), but have not yet been classified to a DLA NDSTF TAS. The transactions in suspense accounts include unidentified collections, disbursements, and Intragovernmental Payment and Collection transactions at month end. DFAS researches suspense transactions in each TI to post them against the appropriate line of accounting.

U.S. Treasury also compares DoD's FBwT reported by DFAS with comparable data submitted by financial institutions and U.S. Treasury Regional Financial Centers and notifies DoD of differences in collection and disbursement data on the Statement of Differences (SOD) report. DFAS reviews the SOD report to research and resolve differences.

(Refer to Note 2, *Fund Balance with Treasury*.)

F. Accounts Receivable

Accounts Receivable represents amounts due to DLA NDSTF from non-federal sources. DLA's accounts receivable arise from sales of stockpile materials.

The DLA NDSTF customers remit payments in advance before material is shipped. There are instances when, the material delivered to the customer is in excess of

the amount paid for in advance by the customer. When this occurs, DLA NDSTF establishes an accounts receivable for the amount of material delivered in excess of the advance payment received. These amounts and risk of uncollected receivables are minimal and historically are collected within 30-60 days; therefore, DLA NDSTF does not establish an allowance for doubtful accounts.

G. Inventory and Related Property, Net

The DLA NDSTF's Inventory and Related Property, Net includes stockpile materials, which are categorized as:

Stockpile Materials Held for Sale: Stockpile materials held for sale is comprised of materials deemed to be excess and have been identified for disposal based on the Annual Sales Plan (ASP).



SMOKY SCENE

Soldiers conduct a wet gap crossing exercise during Defender, which is the largest U.S. Army exercise in Europe and is part of NATO's Steadfast Defender 24 exercise, at Drawsko Combat Training Center, Poland, May 11, 2024. A wet gap crossing is a tactical operation allows the transport of equipment and troops over a variety of wet terrain environments, which can save crucial time in wartime scenario. **Photo By:** Army Reserve Sgt. Tamie Norris

Stockpile Materials Held in Reserve for Future Use:

Stockpile materials held in reserve for future use is comprised of S&C materials held due to statutory requirements for use in National Defense, conservation, or National Emergencies. The S&C materials are not held with the intent of selling in the ordinary course of business.

The DLA NDSTF is making an unreserved assertion that its stockpile material balances are presented fairly in accordance with U.S. GAAP. Effective October 1, 2023, opening balances of Stockpile Materials Held for Sale and Held in Reserves for Future Use were valued at deemed cost under the provisions of SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. The deemed

cost valuation method used included estimated historical cost, fair value and latest acquisition cost.

Inventory and Related Property, Net is valued on the basis of historical cost as of September 30, 2024 given that the opening balances were established at deemed cost and subsequent stockpile material procurements are valued at historical cost in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. They are recorded as assets when acquired and expense when sold. Upon sale, the cost of those goods are removed from inventory.

(Refer to Note 3, *Inventory and Related Property, Net*, and Note 11, *Explanation for Change in Accounting Principles*)



EMERGENCY DELIVERY Marines and Filipino citizens offload emergency supplies from a Marine Corps CH-53E Super Stallion helicopter during relief operations in the wake of Typhoon Doksuri on Fuga Island in the Philippines. During three days of relief efforts, the Marine Corps delivered approximately 64,000 pounds of food and water to remote communities. **Photo by:** Marine Corps Sgt. Sean Potter

H. General Property, Plant and Equipment, Net

The DLA NDSTF's Property, Plant, and Equipment (PP&E) consists of general equipment used for general operations. DLA NDSTF uses the Straight-Line (S/L) method to calculate and record depreciation expense. The S/L method is based on the acquisition cost and expensed over the asset's useful life in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*.

Capitalization Threshold: The DLA NDSTF's General PP&E assets are recorded at the historical acquisition

cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the \$250,000 capitalization threshold.

The DLA NDSTF also capitalizes improvements added to existing General PP&E assets if the improvements equal or exceed the capitalization threshold, extend the useful life, or increase the size, efficiency, or capacity of the asset.

(Refer to Note 4, *General Property, Plant and Equipment, Net*.)

Depreciation Method and Useful Life

Asset Classes	Depreciation/ Amortization Method	Useful Life (Years)
General Equipment	Straight-line	5 or 10

I. Leases

Beginning in FY 2024, lease contracts or agreements occurring within a consolidation entity or between two or more consolidation entities, whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time, as specified in the contract or agreement, in exchange for consideration are classified as intragovernmental leases. All lease agreements held by DLA NDSTF are classified as intragovernmental leases.

As the lessee, DLA NDSTF recognizes lease payments, including lease-related operating costs (e.g., maintenance, utilities, taxes, etc.) paid to the lessor, as expenses based on the payment provisions of the contract or agreement and standards for recognition of accounts payable and other related amounts.

The DLA NDSTF does not have right-to-use lease assets or lease liabilities for non-intragovernmental, non-short-term contracts or agreements, where DLA NDSTF has the right to obtain and control access to economic benefits or services from an underlying PP&E asset for a period of time in exchange for consideration under the terms of the contract or agreement as of September 30, 2024.

In addition, per SFFAS 62, *Transitional Amendment to SFFAS 54*, for contracts and agreements that contain both nonlease and lease component(s), that are primarily attributable to nonlease components, a reporting entity may elect to account for such contracts or agreements as nonlease contracts or agreements in their entirety for the remaining term. The DLA NDSTF has elected the transitional accommodation for those Vendor/Contractor Management of Inventory contracts that meet this criteria existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2024. DLA NDSTF will prospectively apply the provisions of SFFAS 54, Leases, to lease components of new or modified contracts or agreements meeting the "embedded leases" eligibility criteria, after the accommodation period, beginning October 1, 2024.

(Refer to Note 8, *Leases*.)

J. Advances and Prepayments

Advances represent cash outlays to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Prepayments represent payments made by a federal entity to cover certain periodic expenses before those expenses are incurred.

When advances are permitted by law, legislative action, or presidential authorization, DLA records advances or prepayments in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. DLA recognizes advance payments made for stockpile materials before the goods are provided by the contractor.

K. Commitments and Contingencies

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, DLA NDSTF evaluates all contingent liabilities based on three criteria: probable, reasonably possible, and remote. DLA NDSTF recognizes contingent liabilities in DLA NDSTF's Balance Sheet and Statement of Net Cost when the loss is determined to be probable and reasonably estimable. DLA NDSTF discloses those contingencies that are reasonably possible. DLA NDSTF does not disclose or record contingent liabilities when the loss is considered remote.

If the estimated liability is within a range, and a specific amount within that range is a better estimate than any other amount, that amount is recorded. If no amount within the range is a better estimate than another, the minimum amount in the range is recorded, and both the range and a description of the nature of the contingency are disclosed.

Environmental Contingencies: The DLA NDSTF has developed a process to identify, estimate, and record contingent Environmental and Disposal Liabilities (E&DL). DLA NDSTF does not estimate a potential range of loss in this process. Where DLA NDSTF is aware of probable and measurable future outflow of resources due to a past event or exchange transaction, the ap-

propriate program categories are reported in Note 7, *Environmental and Disposal Liabilities*.

Legal Contingencies: For legal contingencies where DLA Counsel is unable to express an opinion regarding the likely outcome of the case and an estimate of the potential legal liability cannot be made, the total amount claimed against the government is classified as "Reasonably Possible" and disclosed if available. Cases for which legal counsel determines an adverse outcome is reasonably possible and the possible financial outflow is measurable are not recorded as liabilities but disclosed as "Reasonably Possible" for financial reporting purposes.

In the event of an adverse judgment against the Government, some legal contingent liabilities may be payable from the U.S. Treasury.

As of September 30, 2024, DLA NDSTF was not a party to any administrative proceedings or legal actions. Consequently, no matters have been identified as probable, reasonably possible, or remote for financial reporting purposes.

Commitments: The DLA NDSTF does not have obligations related to canceled appropriations for contractual commitments.

As no legal contingencies or commitments have been identified for reporting and environmental contingencies are separately disclosed in Note 7, *Environmental and Disposal Liabilities*, as of September 30, 2024, a separate Commitments and Contingencies note is not presented in this report.

(Refer to Note 1.Q., *Imputed Financing and Imputed Cost*, Note 5, *Liabilities Not Covered by Budgetary Resources*, and Note 7, *Environmental and Disposal Liabilities*.)

L. Liabilities

Liabilities represent probable and measurable future outflows of resources as a result of past transactions or

events and are recognized when incurred, regardless of whether there are budgetary resources available to pay the liabilities. However, liabilities cannot be liquidated without legislation providing resources and legal authority (refer to Note 5, *Liabilities Not Covered by Budgetary Resources*).

Liabilities Covered and Not Covered by Budgetary

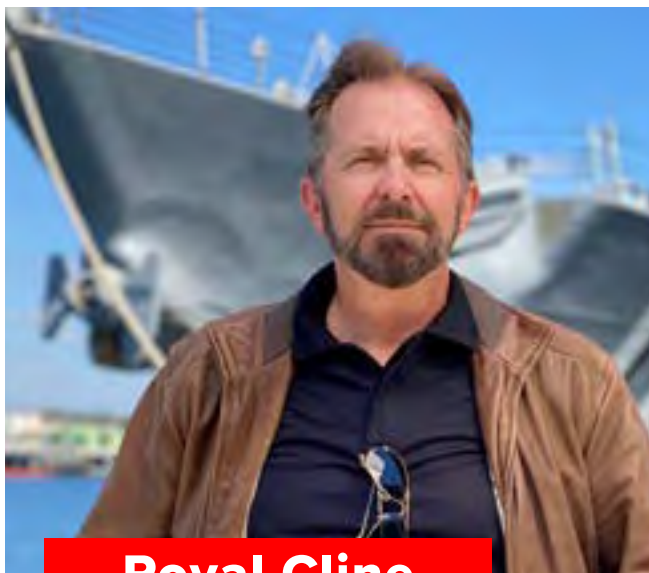
Resources: Liabilities covered by budgetary resources include liabilities incurred that are covered by realized budgetary resources as of the Balance Sheet date. Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, 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 and other inflows (refer to Note 5, *Liabilities Not Covered by Budgetary Resources*).

Current and Noncurrent Liabilities: The DLA NDSTF discloses its other liabilities between current

and noncurrent liabilities in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. The current liabilities represent liabilities that DLA NDSTF expects to be paid within a year of the Balance Sheet date. Noncurrent liabilities represent liabilities that DLA NDSTF does not expect to be paid within a year of the Balance Sheet date.

Accounts Payable: Accounts Payable include amounts owed but not yet paid to Intragovernmental and Other than Intragovernmental entities for goods and services received by DLA NDSTF. DLA NDSTF estimates and records accruals when services are performed or goods are received. DLA NDSTF also accrues liabilities incurred at month-end but not yet recorded using data from Third Party Payment Systems and estimates of costs incurred when goods or services received but not invoiced.

Advances from Others and Deferred Revenue: Advances from Others and Deferred Revenue are cash received in advance of goods or services that have not been fully rendered.



Royal Cline

DLA LAND AND MARITIME CUSTOMER SERVICE REPRESENTATIVE

Royal Cline, DLA Land and Maritime Customer Support Representative, Naval Base San Diego is dedicated to providing the best support he can to the sailors and their Navy ships.

"You have learn about the Navy. Be able to speak their language and know what they do on their day-to-day."



M. Environmental and Disposal Liabilities

E&DL are a probable and reasonably estimable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.

The DLA NDSTF is responsible for accurate reporting of E&DL and expenses for the real property and/or equipment that it records and reports in its financial statements as assets, regardless of ownership by any Federal Agency. DLA NDSTF identifies and estimates accrued E&DL through its annual Cost-to-Complete (CTC) process. DLA NDSTF's accrued E&DL comprises of environmental cleanup costs associated with restoration of environmental sites on real property that it does not own, but has received budget authority to execute and manage. These environmental sites may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, clean closure of assets, and post-closure costs related to the Agency's operations that result in hazardous waste.

N. Federal Employee Benefits Payable

Payroll and Annual Leave Accruals: Accrued payroll consists of salaries, wages, and other compensation earned by employees, but not yet disbursed as of the Balance Sheet date. DLA NDSTF accrues the cost of unused annual leave, including restored leave, compensatory time, and credit hours as earned and reduces the accrual when leave is taken. The payroll and annual leave accrual liability is accrued based on the latest pay period data for reporting purposes (refer to Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*).

FECA: Federal Employees' Compensation Act (FECA) (Public Law 103-3) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from DLA NDSTF for these paid claims. The FECA liability consists of two elements.

The first element, accrued FECA liability, is based on actual future payments for claims paid by DOL but not yet reimbursed by DLA NDSTF. DLA NDSTF reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a one to two-year period between payment by DOL and reimbursement to DOL by DLA NDSTF. As a result, DLA NDSTF recognizes an Intragovernmental Other Liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by DLA NDSTF.

The second element, actuarial FECA liability, is the estimated liability for future payments and is recorded as an Other than Intragovernmental Other Post-Employment Benefits Payable liability, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. The methodology for billable projected liabilities includes, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims that were estimated using historical incurred benefit liabilities and payments.

(Refer to Note 5, *Liabilities Not Covered by Budgetary Resources*, and Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*.)

O. Pension Benefits

Based on the effective Federal government start date, DLA NDSTF's civilian employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employment Retirement System (FERS), a defined benefit plan and contribution plan. The employee pension benefit is managed at the OUSD level. The measurement of the service cost requires the use of an actuarial cost method and assumptions. The Office of Personnel Management (OPM) administers these benefits and provides the factors that

DLA NDSTF applies to calculate and recognize imputed costs, as reported in its Statements of Net Cost, and a corresponding imputed financing in the Statements of Changes in Net Position. DLA NDSTF is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. OPM is responsible for and reports these amounts.

(Refer to Note 1.Q., *Imputed Financing and Imputed Cost*.)

P. Net Position

Net position is the residual difference between assets and liabilities and consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations: Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.

Cumulative Results of Operations: Cumulative results of operations consist of the net difference since inception between: (1) expenses and losses; (2) revenue and gains; and (3) other financing sources.

Q. Revenue and Other Financing Sources

Exchange and Non-exchange Revenue: The DLA NDSTF classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises when DLA NDSTF sells the materials that have been deemed excess to the needs of the stockpile. The proceeds from the sale of materials are DLA NDSTF's major financing source and are used to fund SM operations. In addition, materials are offered for sale on the open market and are awarded through competitive bidding.

Non-exchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Non-exchange revenue is considered to impact the cost of operations and is reported in the Statement of Changes in Net Position as a financing source. For the year ended September 30, 2024, DLA NDSTF does not have activity related to non-exchange revenue.

Other Financing Sources: Other financing sources, other than exchange and non-exchange revenue, include additional inflows of resources that increase results of operations during the reporting period. DLA NDSTF's other financing sources come from appropriations received and recognized as financing sources when used.

Imputed Financing and Imputed Cost: In certain cases, DLA NDSTF receives goods and services from other Federal entities at no cost or at a cost less than the full cost to the providing entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by DLA NDSTF are recognized as imputed costs in the Statement of Net Cost and are offset by imputed financing in the Statement of Changes in Net Position. DLA NDSTF recognizes the following imputed cost and related imputed financing in accordance with SFFAS 55, *Amending Inter-Entity Costs Provisions*: (1) employee benefits administered by the OPM (i.e., retirement, health, life insurance benefits); and (2) claims to be settled by the Treasury Judgment Fund (refer to Note 1.K., *Commitments and Contingencies*, and Note 1.O., *Pension Benefits*).

R. Expenses

Expenses are recognized when there are outflows, usage of assets, or the incurrence of liabilities from activities related to DLA NDSTF's program and mission objectives. Cost of Goods Sold are recorded in the period when the associated revenues are generated to properly reflect the costs of operations.

(Refer to Note 1.B., *Basis of Presentation and Accounting*.)

S. Change in Accounting Principle

The FY 2024 financial statements were affected by a change in accounting principle adopted during the current year. For additional information, see Note 3, *Inventory and Related Property*, and Note 11, *Explanation for Change in Accounting Principles*.

Note 2: Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2024, consist of the following (dollars in thousands):

FY 2024

Status of Fund Balance with Treasury

Unobligated Balance:

Available	\$	103,703
Unavailable		247,923

Obligated Balances Not Yet Disbursed		188,637
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Total Fund Balance with Treasury	\$	540,263
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Status of Fund Balance with Treasury presents the budgetary and proprietary resources that constitute DLA NDSTF FBwT. It consists of unobligated and obligated balances. Unobligated and obligated balances differ from the related amounts reported in the Statements of Budgetary Resources because budgetary balances are supported by amounts other than FBwT.

Unobligated Balance - Available includes the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and can be used for future obligations.

Unobligated Balance - Unavailable includes the cumulative amount of unapportioned funds not available for obligation.

Obligated Balances Not Yet Disbursed includes funds that have been obligated for goods and services not received and those received but not paid.

Non-budgetary FBwT consists of FBwT in unavailable receipt accounts and clearing accounts that do not have budgetary authority and non-budgetary FBwT such as non-fiduciary deposit funds. As of September 30, 2024, DLA NDSTF does not have a balance for non-budgetary FBwT.

Other Information includes the following table summarizing the undistributed collections and disbursements between U.S. Treasury and DLA NDSTF as of September 30, 2024.



MILITARY LOGISTICS

Leaders from 14 industry associations and the Defense Logistics Agency discuss current challenges in military logistics during a DLA Industry Association Leadership Meeting June 6, 2024, at Fort Belvoir, Virginia. **Photo By:** Chris Lynch

FY 2024 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)

Transaction Type	Treasury Balance based on CARS	DLA NDSTF Trial Balance	Balances Not Yet Recorded in DLA Accounting System - Undistributed
Collections	\$ 37,889	\$ 37,889	\$ -
Disbursements	\$ (127,429)	\$ (121,697)	\$ (5,732)

Note 3: Inventory and Related Property, Net

Inventory and Related Property, Net as of September 30, 2024, include stockpile materials and consist of the following (dollars in thousands):

	Valuation Method	FY 2024
Inventory and Related Property, Net		
Stockpile Materials Held for Sale	HC	\$ 5,526
Stockpile Materials Held in Reserve for Future Use	HC	410,254
Total Inventory and Related Property, Net		\$ 415,780

HC = Historical Cost¹¹

Stockpile Materials Held for Sale is comprised of materials deemed to be excess and have been identified for disposal based on the ASP. The Stockpile Materials Held for Sale in FY 2024 includes Ores, Metals, and Minerals. As of September 30, 2024, Stockpile Materials Held for Sale estimated selling price is \$14.8 million. As of September 30, 2024, the difference between the estimated selling price and the carrying amount of the Stockpile Materials Held for Sale is \$9.3 million.

Stockpile Materials Held in Reserve for Future Use consist of a variety of industrial commodities including base and minor metals, ferrous and non-ferrous ores, metal powders and mercury.

Based on the *Mercury Export Ban Act* that was signed into law on October 14, 2008, Federal Agencies are prohibited from conveying, selling, or distributing metallic mercury that is under their control or jurisdiction. This includes Stockpiles held by DoD. Beginning January 1, 2013, U.S. Federal Agencies are prohibited from the export of metallic mercury.

(Refer to Note 11, *Explanation for Change in Accounting Principles*.)

¹¹ The DoD cost flow assumption policy for Inventory and Related Property is Moving Average Cost (MAC); SM, due to the nature of its operations, does not rely upon its cost flow assumption to determine Historical Cost as all inventory is specifically identifiable.

Note 4: General Property, Plant and Equipment, Net

General Property, Plant and Equipment, Net as of September 30, 2024, consist of the following (dollars in thousands):

FY 2024			
	Acquisition Value	Accumulated Depreciation	Net Book Value
Major Asset Class:			
General Equipment	\$ 2,223	\$ (2,093)	\$ 130
Total General Property, Plant and Equipment, Net	\$ 2,223	\$ (2,093)	\$ 130

The table below discloses activity for General Property, Plant and Equipment, Net as of September 30, 2024 (dollars in thousands):

FY 2024	
General Property, Plant and Equipment, Net - Beginning Balances	\$ 352
Depreciation Expense	(222)
General Property, Plant and Equipment, Net - Ending Balances	\$ 130



RAFTING MARINES

Marines paddle in a combat rubber raiding craft during Pololu Strike at Marine Corps Base Hawaii. The exercise focuses on staff education, planning and battalion-led field training. **Photo by:** Marine Corps Sgt. Israel Chincio

Note 5: Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2024, consist of the following (dollars in thousands):

	FY 2024
Intragovernmental Liabilities	
Other Liabilities - Benefits Contributions Payable	\$ 189
Total Intragovernmental Liabilities	189
Other than Intragovernmental Liabilities	
Environmental and Disposal Liabilities	11,680
Federal Employee Salary, Leave, and Benefits Payable	716
Pensions and Other Post-Employment Benefits Payable	1,804
Total Other than Intragovernmental Liabilities	14,200
Total Liabilities Not Covered by Budgetary Resources	14,389
Total Liabilities Covered by Budgetary Resources	23,380
Total Liabilities	\$ 37,769

Other Liabilities - Benefits Contributions Payable (Intragovernmental) include the accrued FECA liability paid by DOL but not yet reimbursed by DLA NDSTF.

Environmental and Disposal Liabilities (Other than Intragovernmental) consist of probable and reasonably estimable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. As of September 30, 2024, the total liabilities covered by budgetary resources for environmental and disposal liabilities consist of \$1.8 million.

Federal Employee Salary, Leave, and Benefits Payable (Other than Intragovernmental) is primarily comprised of the unfunded annual leave earned by civilian

employees but not yet paid. Unfunded annual leave includes restored leave, compensatory time, and credit hours as earned.

Pensions and Other Post-Employment Benefits Payable (Other than Intragovernmental) is comprised of the current year FECA actuarial liability based on DOL records.

(Refer to Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*; and Note 7, *Environmental and Disposal Liabilities*.)

Note 6: Federal Employee Benefits Payable and Related Other Liabilities

Federal Employee Benefits Payable and Related Other Liabilities as of September 30, 2024, consist of the following (dollars in thousands):

FY 2024			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contributions and Payroll Taxes Payable	\$ 50	\$ (50)	\$ -
Unfunded FECA Liability	189	-	189
Total Intragovernmental Other Liabilities	\$ 239	\$ (50)	\$ 189
Other than Intragovernmental Federal Employee Benefits Payable			
Accrued Unfunded Annual Leave	\$ 716	\$ -	\$ 716
Employer Contributions and Payroll Taxes Payable	32	(32)	-
Accrued Funded Payroll and Leave	109	(109)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	\$ 857	\$ (141)	\$ 716
Pension and Other Post-Employment Benefits Payable			
Actuarial FECA Liability	\$ 1,804	\$ -	\$ 1,804
Total Pension and Other Post-Employment Benefits Payable	\$ 1,804	\$ -	\$ 1,804

Employer Contributions and Payroll Taxes Payable are the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Unfunded FECA Liability (Intragovernmental) includes the accrued FECA liability paid by DOL but not yet reimbursed by DLA NDSTF.

Accrued Funded Payroll and Benefits (Other than Intragovernmental) include salaries, wages, and other compensation earned by employees but not yet disbursed.

Accrued Unfunded Annual Leave (Other than Intragovernmental) includes restored leave, compensatory time, and credit hours as earned.

Actuarial FECA Liability (Other than Intragovernmental) are workers' compensation benefits developed by the DOL's Office of Workers' Compensation Programs and provided to DLA NDSTF at the end of each FY. The liability includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. COLAs and medical inflation factors are also applied to the calculation of projected future benefits.

(Refer to Note 5, *Liabilities Not Covered by Budgetary Resources*.)

Note 7: Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30, 2024, consist of the following (dollars in thousands):

	FY 2024
Environmental and Disposal Liabilities	
Environmental Corrective Action	\$ 13,449
Total Environmental and Disposal Liabilities	<u>\$ 13,449</u>

The DLA NDSTF E&DL are comprised of two primary elements: (1) existing obligations supporting DLA NDSTF environmental restoration programs, and (2) the Cost to Complete (CTC) which includes anticipated future costs necessary to complete environmental restoration requirements at SM environmental restoration sites.

In FY 2024, DLA NDSTF utilized the Remedial Action Cost Engineering and Requirements (RACER) software to generate the CTC estimates of anticipated future costs as of September 30, 2024, as such, the total NDSTF E&DL consist of \$13.4 million.

FY 2024 cost estimates under SM were generated for sites with environmental corrective action costs.

Per DoD policy and FASAB guidance, Military Departments are responsible for reporting the entirety of E&DL associated with real property located on their installations for Environmental Closure Requirements E&DL. Accordingly, as of September 30, 2024, DLA NDSTF has no reportable Environmental Closure Requirements E&DL.

Types of Environmental and Disposal Liabilities: The DLA NDSTF is responsible for the recognition, measurement, reporting, and disclosure of Non-BRAC E&DL and Environmental Disposal for General Equipment. Non-BRAC E&DL are specifically related to past and current installation restoration activities and operations. All cleanup and disposal actions are done in co-

ordination with regulatory Agencies, other responsible parties, and current property owners.

The DLA NDSTF reportable E&DL are under Other Accrued E&DL – Non-BRAC and includes the following line items:

Environmental Corrective Action includes E&DL associated with the cleanup sites not eligible for Defense Environmental Restoration Program (DERP) funding, typically conducted under the RCRA or other Federal or state statutes and regulations.

The DLA assessed its real property and General Equipment inventories and does not currently have reportable NDSTF E&DL for Environmental Closure, Asbestos, and General Equipment.

Applicable Laws and Regulations for Cleanup Requirements: The DLA NDSTF is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other prior activities, which may have created a public health or environmental risk. DLA NDSTF is required to comply with the following laws and regulations for corrective action where applicable: The Comprehensive Environmental Response, Compensation, and Liability Act; the Superfund Amendments and Reauthorization Act; RCRA; and other applicable Federal, State, and Local laws and regulations. Required cleanup may at times extend beyond SM operational site boundaries onto adjacent property or onto other

sites where SM is named as a potentially responsible party by a regulatory Agency. DLA NDSTF reports corrective action related E&DL in accordance with SFFAS 5, Accounting for Liabilities of the Federal Government, and Federal Financial Accounting Technical Release 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations:

DLA NDSTF CTC estimates are recognized as of September 30, 2024. As of the reporting date, no material changes in the total estimated clean-up costs from the prior year due to changes in in laws and regulations, technology, or plans. The cost estimate changes from prior periods are primarily driven by remediation activities and operations, as evidenced by UDOs; there are minor adjustments for inflation or other similar administrative costs throughout the fiscal year. E&DL estimates will be reevaluated each year and may change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental and Disposal Liabilities:

The stated total DLA NDSTF E&DL includes prior year obligations and the estimates of future costs necessary to complete requirements. DLA NDSTF has instituted extensive controls to ensure that

these estimates are accurate and reproducible. The cost estimates produced through the ELM process are considered accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. Actual results may materially vary from the accounting estimates if agreements with regulatory Agencies require remediation to a different degree than anticipated when calculating the estimates. DLA NDSTF E&DL can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

The DLA NDSTF utilizes a formalized Site ID process to identify, track, and evaluate environmental events where the potential for an out-year E&DL exists but the E&DL is not probable and measurable. These environmental events will be re-evaluated in the following fiscal year to determine if any changes have taken place and sufficient information/data is available to create an estimate of future costs that would be included in the DLA NDSTF E&DL balance.

Unrecognized Costs: The DLA NDSTF has no unrecognized cost as there are no reportable Asset-related Environmental Closure Requirements, Asbestos, and General Equipment related E&DL.

Note 8: Leases

Intragovernmental leases as of September 30, 2024, consist of the following (dollars in thousands):

	FY 2024
Major Asset Class:	
Buildings, Structures, and Facilities	\$ 920
Land	102
Total Annual Lease Expense	<u>\$ 1,022</u>

Continued on next page. ►

SM holds 13 occupancy agreements with the GSA for real property, including buildings, office space, warehouse storage facilities, and garages. Billing is based on the amount of space occupied by SM. These occupancy agreements have a duration of 10 years and can be terminated based on the availability of funds or with a four-month notice.

Additionally, SM has a 5-year lease with USACE for land, which can be terminated with a 30-day notice.

(Refer to Note 1.I., *Leases*.)

Note 9: Statement of Budgetary Resources

Unobligated Balance Brought Forward, October 1:

There were no adjustments during the current year to correct the unobligated balance brought forward, October 1. Components of the amount reported as “Unobligated Balance from Prior Year Budget Authority, Net” are disclosed in the table below. Other adjust-

ments consist of recoveries of prior year obligated balances. The following table displays a reconciliation between the prior year’s unobligated balance, end of year amount to the current year’s unobligated balance from prior year budget authority, net amount (dollars in thousands):

	FY 2024
Reconciliation of PY Ending Unobligated Balances of CY Beginning Unobligated Balances SBR line 1071	
Unobligated balance brought forward, October 1	\$ 454,241
Recoveries of prior year unpaid obligations	15,397
Unobligated balance, Total	\$ 469,638

Undelivered Orders (UDOs): For the year ended September 30, 2024, consist of the following (dollars in thousands):

	FY 2024
Intragovernmental Undelivered Orders	
Unpaid	\$ 8,847
Total Intragovernmental Undelivered Orders	8,847
Other than Intragovernmental Undelivered Orders	
Unpaid	158,988
Paid	1,257
Total Other than Intragovernmental Undelivered Orders	160,245
Total Undelivered Orders	\$ 169,092

UDOs represent the amount of goods and/or services ordered to perform DLA NDSTF's mission objectives that have not been received. Unpaid UDOs represent obligations for goods and services that have not been

received or paid, whereas paid UDOs represent obligations for goods and services that have been paid for in advance of receipt.

Continued on next page. ►

Legal Arrangements Affecting the Use of Unobligated

Balances: Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation under law, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Spending authority from offsetting collections and appropriations are apportioned on an annual basis.

Per the Bipartisan Budget Act of 2015, unobligated balances in fund symbols associated with the DLA NDSTF revolving fund are subject to temporary annual reductions due to sequestration until FY 2025. These reductions are intended to help decrease the federal budget deficit, and the funds will become available again in a subsequent fiscal year. Unobligated balances in unexpired appropriated fund symbols are available in the next FY for new obligations unless specific restrictions have been placed on those funds by law. The unapportioned balance for the year ended September 30, 2024 is \$218.6 million.

Spending authority from offsetting collections do not expire. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Amounts in expired fund symbols are unavailable for new obligations

but may be used to adjust previously established obligations. DLA NDSTF does not have expired authority for the year ended September 30, 2024.

Explanation of Differences Between the SBR and the Budget of the U.S. Government (Unaudited):

The FY 2023 Combined Statements of Budgetary Resources are reconciled to the President's Budget that was published in March 2024. Budgetary resources, new obligations and upward adjustments, and net outlays are reconciled to the Departmental balances as published in the Appendix to the Budget; distributed offsetting receipts is reconciled to the Departmental balances in the Federal Budget by Agency and Account section of the Analytical Perspectives Volume of the President's Budget (dollars in millions):

The FY 2024 SBR will be reconciled to the President's Budget in the FY 2025 AFR. The Budget with the actual amounts for the current year will be available at a later date at [President's Budget | The White House](#)¹².

¹² The notes to the financial statements include URL references to certain websites. The information contained on those websites is not part of the financial statement presentation.

	(Unaudited)			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	586	132	-	34
Budget of the U.S. Government	586	132	-	34
Difference	-	-	-	-



STARRY SECURITY

Marines post security after receiving simulated fire during Exercise Native Fury 24 in the United Arab Emirates, May 17, 2024. Native Fury is a multilateral exercise sponsored by U.S. Central Command and executed by Marine Corps Forces Central Command in collaboration with Saudi Arabia and the UAE.

Photo by: Marine Corps Cpl. Mary Kohlmann

Note 10: Reconciliation of Net Cost to Net Outlays

Reconciliation of Net Cost to Net Outlays for the year ended September 30, 2024, consist of the following (dollars in thousands):

FY 2024			
	Intragovernmental	Other than Intragovernmental	Total
NET COST	\$ 17,595	\$ 7,748	\$ 25,343
Components of Net Cost That are Not Part of Net Outlays			
General Property Plant and Equipment Depreciation	-	(222)	(222)
Cost of Goods Sold	-	(19,881)	(19,881)
Net Gains/(Losses)	-	(29)	(29)
Increase/(Decrease) in Assets:			
Cash and Other Monetary Assets	-	(5)	(5)
Accounts Receivable, Net	-	823	823
Advances and Prepayments	(24,315)	(404)	(24,719)
(Increase)/Decrease in Liabilities:			
Accounts Payable	233	(15,532)	(15,299)
Environmental and Disposal Liabilities	-	95	95
Federal Employee Salary, Leave, and Benefits Payable	-	174	174
Pension and Other Post-Employment Benefits Payable	-	(100)	(100)
Other Liabilities	(6)	5	(1)
Financing Sources:			
Imputed Financing	(906)	-	(906)
Total Components of Net Cost That are Not Part of Net Outlays	(24,994)	(35,076)	(60,070)
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of Inventory	64,800	59,466	124,266
Total Components of Net Outlays That are Not Part of Net Cost	64,800	59,466	124,266
NET OUTLAYS	\$ 57,401	\$ 32,138	89,539
Outlays, Net, Statement of Budgetary Resources			89,539
Reconciling Difference			\$ -

The Net Cost to Net Outlays Reconciliation schedule clarifies the relationship between the Net Cost (reported in the Statements of Net Cost) to the Net Outlays (reported in the Statements of Budgetary Resources). Examples of the reconciling items identified are:

Components of Net Cost Not Part of Budgetary Outlays: Includes proprietary accounts that are the result of allocating assets to expenses over more than one reporting period, the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and costs financed by other entities (imputed inter-entity costs).

Components of Net Outlays That are Not Part of Net Cost: Includes amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet.

For FY 2024, the key reconciling balances between the net cost and net outlays for DLA NDSTF include: (1) decreases in Advances and prepayments due to the receipt of stockpile material acquisition that was paid in advance; (2) Cost of Goods Sold, which related to stockpile material and (3) acquisition of inventory.

Note 11: Explanation for Change in Accounting Principles

Effective October 1, 2023, the opening balances of Stockpile Materials were valued at deemed cost under SFFAS 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials. Deemed cost is an amount used as a substitute for initial amounts that otherwise would be required to establish opening balances and is an acceptable valuation

method for the opening balance of stockpile materials. The cumulative effect of the change to the balance of Stockpile Materials at October 1, 2023 was \$79.9 million and is reported as a "change in accounting principle. The adjustment was made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position.



The DLA has long been a whole-of-government provider. While focused on the Defense Department, it has been supplying federal civilian agencies since receiving support responsibilities from the General Services Administration in 1965. Many of these agencies belong to one of the cabinet's fifteen departments. Some of these departments, such as State, predate DLA. Others, such as Homeland Security, are more recent.



FIRE DRILL

Sailors participate in an aircraft firefighting drill aboard the USS Shoup in the Philippine Sea, Oct. 4. **Photo By:** Navy Petty Officer 1st Class Donavan K. Patubo





SECTION 3



OTHER INFORMATION

SECTION 3

Other Information

IN THIS SECTION:

- 107 Summary of Financial Statement Audit and Management Assurances**
 - 111 Management Challenges**
 - 115 Payment Integrity**
 - 115 Financial Reporting-Related Legislation**
-

SECTION 3 Cover Image Captions + Credits (listed clockwise)**1. FORWARD MARCH**

The Air Force Honor Guard performs for a crowd during the Luke Days 2024 airshow at Luke Air Force Base, Ariz., March 22, 2024. The Honor Guard's mission is to represent airmen to the public in the U.S. and around the world. **Photo by:** Air Force Airman 1st Class Katelynn Jackson

2. READY REFUEL

An Air Force F-16 Fighting Falcon approaches a KC-135 Stratotanker to receive fuel over Alaska, June 14, 2023, during Red Flag-Alaska 23-2, an advanced aerial combat training exercise. **Photo by:** Navy Petty Officer 2nd Class Adonica Munoz

3. ENJOYING THE VIEW

Army Sgt. Shelby Lewis looks out of the rear of a CH-47 Chinook during training over Waimanalo, Hawaii, March 3, 2024. **Photo by:** Army National Guard Sgt. Lianne M. Hirano

4. CARRIER OPERATIONS

The U.S. Navy's only forward-deployed aircraft carrier, USS Ronald Reagan (CVN 76), transits the Philippine Sea, Oct. 4, 2023. Ronald Reagan, the flagship of Carrier Strike Group 5, provides a combat-ready force that protects and defends the United States, and supports alliances, partnerships and collective maritime interests in the Indo-Pacific region. **Photo by:** U.S. Navy Mass Communication Specialist 2nd Class Caroline H. Lui

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The FY 2024 DLA NDSTF audit report reflects 5 material weaknesses. Table 1 below provides a summary of the DLA NDSTF financial statement audit results for FY 2024.

Although the material weaknesses overall are not resolved, DLA is continuing to implement the processes and controls detailed in the CAPs to fully resolve the audit findings.

FY 2024 DLA NDSTF Summary of the Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Inventory	1	-		-	1
Fund Balance with Treasury	1	-	1	-	-
Accounts Payable and Expenses	1	-	-	-	1
Financial Reporting	1	-	-	-	1
Oversight and Monitoring	1	-	-	-	1
Information Systems	1	-	-	-	1
Total Material Weaknesses	6	-	-	-	5



SUPPLYING REPAIR PARTS

Senior Airman James Graves, 61st Airlift Squadron loadmaster, marshals cargo onto a C-130J Super Hercules during a Foreign Military Sales mission between the U.S. and Switzerland at Dover Air Force Base, Delaware. The Defense Logistics Agency provides repair parts for U.S. military equipment that's transferred to FMS customers by the Defense Security Cooperation Agency and U.S. military services. **Photo by:** Air Force Senior Airman Cydney Lee

The DLA SOA package only includes self-identified material weaknesses and significant deficiencies for internal DoD reporting. DLA continues to make improvements and monitor the NDSTF financial statement audit findings separately. DLA did not self-identify any material weaknesses in the area of Internal Controls over Operations (ICOR-O) in FY 2024. DLA NDSTF has 9 material weaknesses (5 related to

internal controls over financial reporting, and 4 related to internal controls over financial systems) identified by the IPA.

The DLA Remediation and Process Improvement Branch continues to separately track the NDSTF financial statement audit findings and CAPs and report these to the ODCFO.

Table 2 summarizes DLA's FY 2024 material weaknesses associated with DLA.

Table 2: Summary of Management Assurances						
NDSTF Effectiveness of Internal Controls over Financial Reporting (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Oversight and Monitoring	1	-	-	-	-	1
Financial Reporting	1	-	-	-	-	1
Fund Balance with Treasury	1	-	-	-	-	1
Plan-to-Stock: Inventory	1	-	-	-	-	1
Procure-to-Pay: Accounts Payable and Expenses	1	-	-	-	-	1
Total Material Weaknesses	5	-	-	-	-	5



STEEL KNIGHT 23.2

U.S. Marines with 5th Marine Regiment, 1st Marine Division, drive an Ultra Light Tactical Vehicle during a mission rehearsal exercise as part of Steel Knight 23.2 at Marine Corps Base Camp Pendleton, California. **Photo by:** U.S. Marine Corps Lance Cpl. Juan Torres

Table 2: Summary of Management Assurances

DLA Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems do not conform to financial management system requirements					
Non- Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Security Management	1	-	-	-	-	1
Access Controls	1	-	-	-	-	1
Segregation of Duties	1	-	-	-	-	1
Configuration Management	1	-	-	-	-	1
Total Non-Conformances	4	-	-	-	-	4

Based on DLA management's analysis of relevant FFMIA compliance indicators available at the time of this report, DLA identified a lack of compliance associat-

ed with all three FFMIA Section 803(a) requirements across all funds summarized in the table below.

Table 2: Summary of Management Assurances

Compliance with Section 803(a) of the FFMIA		
	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at the Transaction Level	Lack of compliance noted	Lack of compliance noted



WASP ARG-24TH MEU (SOC) BEGIN DEPLOYMENT

Sailors and Marines assigned to the Wasp (WSP) Amphibious Ready Group (ARG)-24th Marine Expeditionary Unit (MEU) Special Operations Capable (SOC) began deployment operations in the Atlantic. **Photo by:** MC2 Ellen Sharkey

MANAGEMENT CHALLENGES



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

29 August 2024

MEMORANDUM FOR LTG MARK SIMERLY, DIRECTOR, DLA

SUBJECT: Major Management and Performance Challenges Facing the Defense Logistics Agency

This year the Office of the Inspector General (OIG) has aggregated the major management and performance challenges facing DLA into four general topics: Data Management, Property Accountability, Business Process Documentation and Internal Controls, and Personnel Management. These topics deal with operational, financial, or managerial improvements to the operations of DLA that will address inherent risks that affect the operation to support the Warfighter, and secondarily will improve audit readiness. The general risk topics are discussed below.

Data Management: The need for DLA to begin using the significant amount of data that exists within the DLA data domain to make appropriate inventory purchase and stockage decisions go hand in hand with business process documentation and internal controls management. Improved data interoperability and utilizing data from the entire DoD enterprise will allow us to make better decisions on not only what we buy, but where to stock it and to more accurately assess cost. Improvements in data management should manifest in improvements in supply chain security, and better identification of the associated risks and the contested logistics environment.

a. Supply Chain Security and Risk Management: DLA needs to continually evaluate our supply chains for single-point failures to prevent disruptions to DLA's Warfighter and Whole of Government customers. This challenge highlights the lack of domestically based integrated supply chains, as well as other risks in DLA's reliance on the Defense industrial base. These Defense industrial base risks should be addressed in business process documentation so Congress can address or accept the risk.

b. Contested Logistics: To overcome the contested logistics challenges, DLA is working to transform itself in four focus areas: people, precision, posture, and partnerships. If we have complete and accurate data, we are more precise, better postured, and make it easier on our people and partnerships. Complete and accurate data doesn't come from data cleansing exercises or using artificial intelligence to identify and correct outliers; complete and accurate data comes from having business processes that are well documented and followed by all personnel. This area is linked to the following topic of business process documentation and internal controls, and until this is addressed, we are attempting to improve logistics with incomplete or wrong data.

Property Accountability: As previously disclosed in both past management challenge letters as well as in audit and inspection work, there are five accountability risks. The five detailed risks are: lack of advance shipment notices, imbalance in materiel availability, contractor non-compliance, supply discrepancy reports, and financial liability investigations. All five of these risks could adversely affect the material available to Warfighters and whole of government customers. These risks cover the entire property accountability process and should be identified in an "end-to-end" process map.

a. Suspended Inventory: The lack of system generated Advanced Shipping Notice (ASN) and Pre-Positioned Materiel Receipts (PMR) are causing significant suspended inventory at the

DLA Distribution warehouses that receive this material. If a warehouse worker cannot quickly identify the shipping details associated with a shipment, the material risks being suspended for additional research. While this material is being researched, it is not available for shipment to customers. DLA Distribution has identified that about 90 percent of the material without advance shipment details is owned by the Services. Failure to provide advance shipment details leads not only to additional research, but potential receipt of materiel under the wrong owner which leads to improper billing, adjustments, delays in vendor reimbursement, and materiel non-availability leading to rebuys across the Department. DLA must determine how to incentive the Services to submit the correct paperwork initially for returned items.

b. Materiel Availability: DLA incurs substantive risk due to an imbalance between DoD resourced Wholesale Supply Availability and Supply Fulfillment (targeting 85% within the range of 82% to 89%) and the expectation by the Military Services performance of 90% and higher. This disconnection manifests as shortfalls in materiel availability. DLA can align to the DoD-directed goal so long as customer demand supports the higher percentage or a financing strategy is pursued (e.g., cash infusion or surcharge when expanding inventories). While DLA is working to align customer performance expectations with its resourcing profile, this remains a significant risk to effective operations and adequate funding within the Working Capital Fund.

c. Contracting Officer's Representatives: This area was identified in FY20 and remains on the list because of significant concerns about the quality of Contracting Officer's Representatives' (COR) work. Previous audit work identified that COR files did not contain adequate evidence to support monitoring of contractors. Given the significant number of DLA contracts, to improve fiscal stewardship, it is essential to improve COR performance and quality of work. The OIG conducted follow-up work on the seven recommendations related to this area but will only close two of the recommendations, indicating that DLA Acquisition continues to focus on awarding, but not managing, contracts.

d. Supply Discrepancy Reports: When non-compliant materiel is received DLA Distribution must initiate Supply Discrepancy Reports (SDRs). Materiel is primarily suspended for labeling, packaging, packing, and preservation, which negatively impacts customer readiness and DLA cash flow. The cost to DLA for research and legal actions if litigation is required is increasing exponentially. Additionally, downstream impacts include maintaining additional facilities, materiel handling equipment, and FTEs to manage this materiel.

e. Financial Liability Investigation Reports: Based on numerous OIG investigations, financial liability investigations of property loss were inadequate and failed to hold responsible officials accountable for failure to maintain accountability of property under their control.

We also identified two risks (ongoing contingency operations and rare earth elements) that were not related to one of the three general risk topics. The first risk is contingency operations are placing greater stress on the logistics supply system, especially for legacy systems that are only in minimal quantities across DoD. The second risk is DLA stores bulk, unrefined rare earth elements through the DLA Transaction Fund as directed by Congress. While DLA only purchases, stores, and accounts for this material, we recognize that the capacity of the Defense domestic industrial base to refine and move this material into end products may be limited. Mitigating this risk may require DLA or DoD to incentivize the Defense domestic industrial base sustainment in refinery capabilities.

Business Process Documentation and Internal Controls: This area highlights the need for adequate business process documentation, internal controls, and complementary user entity controls for all DLAs business processes. DLA OIG has completed a series of projects dealing with business process documentation, internal controls, and the closure of audit recommendations. During the course of these projects, we noted three overarching observations that OIG brought to the attention of senior leadership regarding the lack of: (1) employee engagement and involvement in the process, (2) completed process maps, and (3) progress in addressing deficiencies identified by the independent public accountant. While this risk is primarily focused on audit readiness, as DLA works through the audit process, organizations will document processes that will lead to higher resiliency and data accuracy, and potentially lower costs to DLA customers and ultimately the Warfighter.

a. Audit Documentation: DLA OIG has completed a series of projects reviewing the steps taken to ensure DLA obtains an unqualified opinion to confirm our financial statements are fair and appropriately represented. We found that the basic, foundational business process and internal control documentation is missing. In 2022 we documented this challenge as DLA attempted to minimize the number of future notices of finding and recommendation (NFR) from our public accountant, as well as address existing NFRs. We have not seen substantive progress on this risk and have issued 62 recommendations related to audit documentation. Without accurate and detailed business process flowcharts and descriptions (including formal policy and implementing procedures), external auditors cannot quickly and easily understand the process and DLA cannot prove that the correct internal controls have been developed. Business process documentation must address inputs received from other processes, identification of risks associated with a process, management's evaluation and/or acceptance or addressing of the risk, the implementation of associated internal controls, and the output(s) to other business processes. Until this is achieved, DLA will continue receiving numerous NFRs and the external auditor will continue to deem corrective actions inadequate.

b. Sales of DoD Property: This concern was originally recognized in a finding in FY18 during an Agency Management Review and has not been corrected to date. While multiple components of DLA are involved in the sales of DoD property, DLA Headquarters has limited expertise within the staff to develop adequate policy. Additionally, sales procedures and process are impacted by law and rules from several governmental agencies. Inadequate agency and MSC policy and the lack of execution oversight by DLA remains an area of risk that requires mitigation and remediation and clear documentation in the business process.

Personnel Management: This area highlights the issues associated with DLA's most valuable resource – the dedicated civilian workforce. This risk is comprised of two sub-risks dealing with retention and working conditions.


a. Retention of Critical Skill Sets: General population trends indicate that by 2030 roughly 25% of the workforce will be over 65. This represents a significant challenge to DLA in retaining existing critical skillsets while simultaneously improving the data acumen skills of existing and future employees. DLA needs to ensure an adequate workforce remains by enticing workers, with their decades of experience in many of these critical skills, to remain in the workforce either full-time or part-time in order to mentor new workers or continuing their jobs as re-employed annuitants for special projects and surge workloads.

b. Warehouses: Many of the DLA warehouses, due to their age and configuration, may not be able to support the contingency operating tempo needed to be resilient and ready. While the DLA Director is transitioning the organization to an integrated deterrence position, what steps are being taken to ensure that warehouses are capable of operating with the attendant increase of operating tempo.

Conclusion: This memo represents some of the potential high-level risks that may face DLA in both the short and long term and is not intended to be an all-inclusive list of enterprise risks. Each of the four general risk topics outlined in this memo reflects the complexity of support to the Warfighter and audit readiness; however, addressing these risks will help mitigate inherent risks to support for the Warfighter. OIG will conduct audits or inspection projects to assess DLA progress.

In 2025, the DLA OIG will focus on improving the foundational business process and internal control documentation to assist DLA in preparing for ongoing operational and financial projects. We have already started projects on Nuclear Weapons Related Materials (NWRM) and the Care of Stock in Storage (COSIS). Addressing the four major management and performance challenges will address inherent risks that affect the operations to support the Warfighter, will also improve DLA's internal control structure, and help the organization achieve unmodified financial statement opinions.

Please contact Mr. Steven Pigott, Deputy Inspector General for Internal Audit, if you would like to further discuss the risks present in this memorandum. Mr. Pigott can be reach at 571-767-6282 or Steven.Pigott@dla.mil.



WILLIAM A. RIGBY
Inspector General

PAYMENT INTEGRITY

The Payment Integrity Information Act of 2019 (PIIA) (Pub. L. 116-117), requires Agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments (IPs), estimate the amount of IPs annually, and submit those estimates to Congress.

OMB Circular A-123, Appendix C defines an IP as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes duplicate payments, any payment made to an ineligible recipient, any payment for an ineligible good or service, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. DoD 7000.14-R FMR, Volume 4, Chapter 14, Improper Payments, instructs DoD components that entitle (i.e., process or compute)

payment to conduct risk assessments of their payment processes and random post-payment reviews to estimate IPs. As DLA's Service Provider, DFAS entitles payments and provides the results of post-payment reviews to OUSD(C) A&FP on behalf of its customers.

In accordance with OMB Circular A-136 Section II.4.5 and PIIA, each Executive Branch Agency must complete the Annual Data Call issued by OMB and provide a link to [PaymentAccuracy.gov](https://paymentaccuracy.gov) in their AFR or Performance and Accountability Reports (PARs) to fulfill reporting requirements. In addition, each Executive Branch Agency should report on the actions taken in their AFR or PAR. For detailed reporting on DoD payment integrity, refer to the OI section of the consolidated DoD AFR at: <https://comptroller.defense.gov/odcfo/afr/>. The OUSD(C) Accounting & Finance Policy Directorate (A&FP) compiles the Department-wide results annually as part of DoD's AFR.

FINANCIAL REPORTING-RELATED LEGISLATION

The following legislative provision was enacted in FY 2024 that addresses DLA NDSTF financial accounting, reporting, and auditing issues. This provision affected DLA NDSTF's ability to prepare the AFR and the DLA NDSTF audit opinion.

National Defense Authorization Act (NDAA) for Fiscal Year 2024 ([Pub. L. 118-31](#)) The FY 2024 NDAA, Section 1413, Beginning Balances of the National Defense Stockpile Transaction Fund for Audit Purposes, established by section 9 of the Strategic and Critical Materials Stock Piling

Act (50 U.S.C. §98), authorized: 1) the FBwT ending balance reported in U.S. Treasury CARs as of September 30, 2021; 2) the Total Actual Resources – Collected opening balance for October 1, 2021; and 3) the Unapportioned – Unexpired Authority ending balance for September 30, 2021.



APPENDIX



APPENDIX



Appendix A: J/D Codes, DLA HQ Program
Support Structure, Roles
and Responsibilities

Appendix B: Abbreviations & Acronyms

Acknowledgements

APPENDIX A:

J/D Codes, DLA HQ Program Support Structure, Roles and Responsibilities

The following are DLA Enterprise-wide J/D Codes and DLA HQ Program Support Structures:

DLA Human Resources (J1) provides the full range of human resource services to include Operational, Human Performance, Talent Management, Performance Management, Labor Relations and Human Resources Policy for the DLA workforce. DLA Human Resources recruits, hires, trains, and sustains a mission-ready workforce for DLA and Human Resources customers, using world-class policies, processes, programs, and tools.

DLA Logistics Operations (J3) is responsible for the end-to-end supply chain management of DLA's supply chains, providing logistics and material process management policy, guidance, and oversight. J3 integrates strategic, operational, and tactical perspectives, as well as commands and controls functions for contingency operations and logistics supply chain planning. J3 maximizes the readiness and logistics combat power by leveraging enterprise solutions to support DLA's global customer base.

DLA Information Operations (J6) as DLA's knowledge broker, provides comprehensive, best practice IT support to the DoD/DLA Logistics Business Community, resulting in customer support; efficient and economical computing; data management; electronic business; telecommunication services; key management; and secure voice systems for DoD, DLA, and geographically separated operating locations. The Director of Information Operations serves as DLA's CIO. DLA Information Operations also manages DLA's R&D IT program.

DLA Acquisition (J7) is responsible for planning, organizing, directing, and managing the procurement and contract administration functions for DLA acquisition in support of both internal operations and other supported activities. The Director of DLA Acquisition also

serves as the Agency's Component Acquisition Executive. DLA Acquisition provides oversight of DLA Contracting Services Office.

DLA Finance (J8) is responsible for obtaining and allocating resources; analyzing execution; and providing fiscal guidance and advice to support the Agency, its business areas, and its MSCs in accomplishing DLA's mission. DLA Finance prepares the AFRs and guides DLA in its Audit Remediation efforts. The Director of Finance also serves as DLA's CFO.

DLA Joint Reserve Force (J9) provides DLA with trained, ready, and available reservists from the Army, Air Force, Navy, and Marine Corps for worldwide contingency operations and support of ongoing operations, surge requirements, and logistics planning.

DLA Office Of Small Business Programs (DB) provides small business advocacy and promotes small business utilization to strengthen the competency, capability, and commitment of the industrial base that fulfills DLA's mission as the Nation's Combat Logistics Support Agency. DLA Office of Small Business Programs is responsible for implementation of the Procurement Technical Assistance Program to expand the number of businesses capable of participating in contracts with DoD, other Federal Agencies, state and local governments, and government prime contractors.

DLA General Counsel (DG) delivers professional, candid, and independent legal advice and services to DLA.

DLA Command Chaplain (DH) serves as the program manager for religious support logistics. This office provides the DLA Director and the staff a clear picture of workforce morale as affected by religion, ensuring the free exercise of religion to support the Warfighter and the employees in the workplace at DLA.

DLA Installation Management (DM) provides enterprise-wide Agency policy, program, and worldwide operational support in environmental management; safety and occupational health; installation management; public safety; forms and policy management; and morale, welfare, and recreation for DLA.

DLA Equal Employment Opportunity provides DLA senior leadership, staff, and subordinate commands enterprise-wide respondent and subject matter expertise on all Equal Employment Opportunity Compliance oversight.

DLA Public Affairs (DP) provides public affairs support, communication strategy development, and engagement guidance to DLA senior leadership, staff, and subordinate commands. The DLA Public Affairs office develops and administers internal news and information; manages DLA social media and public engagement policies; and develops programs that communicate DLA's role as a Combat Support Agency that adds value to the Defense Department, military services, CCMDs and the American people.

DLA Transformation (DT) directorate synchronizes

strategy, policy, and process to support the Warfighter, strengthen alliances and drive innovation. DT manages DLA's strategic plan, executive governance forums, and the Agency-wide deployment of Enterprise Process Management, Continuous Process Improvement, Enterprise Organizational Alignment, and Enterprise Policy Management programs.

DLA Office Of The Inspector General (OIG) coordinates and synchronizes GAO and Department of Defense Office of Inspector General (DoDIG) audits with all DLA components; tracking, monitoring, and assessing the implementation of audit corrective actions and communicating completion results. They sustain strategic engagement with the Defense Counsel on Integrity and Efficiency and their subcommittees, as well as relationships with DoDIG Criminal Investigative Services, Military Criminal Investigation Services, and other Law Enforcement Agencies. DLA OIG also conducts administrative investigations and crime vulnerability assessments that align with Agency risks and strategic goals. The DLA OIG internal audit plan is derived from DLA's ERM efforts, and also encompasses external audit projects derived from GAO's high-risk list.



TACTICAL PAUSE

Airmen take a tactical halt during an exercise at the Melrose Range, N.M. The training is designed by and for junior airmen to share field skills and promote joint interoperability. **Photo by:** Air Force 2nd Lt. Merit Davey

APPENDIX B: Abbreviations & Acronyms

A&FP	Accounting & Finance Policy Directorate	DoE	Department of Energy
A/BO	Approving/Billing Officials	DOL	Department of Labor
ADA	Anti-Deficiency Act	DQP	Data Quality Plan
AFR	Agency Financial Report	DSA	Defense Supply Agency
A/OPC	Agency/Organization Program Coordinators	DWWCF	Defense-Wide Working Capital Fund
APR	Annual Performance Report	EBIS	Enterprise Business System
ASIC	Application Specific Integrated Circuit	ECC	Resource Planning Central Component
ASP	Annual Sales Plan	E&DL	Environmental and Disposal Liabilities
BRAC	Base Realignment and Closure	EOU	Excess, Obsolete, and Unserviceable
C&E	Construction and Equipment	ERM	Enterprise Risk Management
C&T	Clothing and Textiles	ERP	Enterprise Resource Planning
CAPs	Corrective Action Plans	FASAB	Federal Accounting Standards Advisory Board
CARS	Central Accounting and Reporting System	FBwT	Fund Balance with Treasury
CCMD	Combatant Command	FCI	Facility Condition Index
CCs	Critical Capabilities	FEA	Fuel Exchange Agreements
CFO	Chief Financial Officers	FECA	Federal Employees' Compensation Act
Charge Card Act	Charge Card Abuse Prevention Act	FEMA	Federal Emergency Management Agency
CIP	Construction-in-Progress	FERS	Federal Employees Retirement System
CMR	Cash Management Report	FFMIA	Federal Financial Management Improvement Act
COLA	Cost of Living Adjustments	FFMSR	Federal Financial Management System Requirements
COVID-19	Coronavirus-19	FMFIA	Federal Managers' Financial Integrity Act
CPM	Component Program Manager	FMR	Financial Management Regulations
CRR	Cost Recovery Rate	FMS	Foreign Military Sales
CSRS	Civil Service Retirement System	FY	Fiscal Year
CTC	Cost To Complete	GAAP	Generally Accepted Accounting Principles
DATA Act	Digital Accountability and Transparency Act of 2014	GAO	Government Accountability Office
DERP	Defense Environmental Restoration Program	GF	General Fund
DFAS	Defense Finance and Accounting Service	GMRA	Government Management Reform Act
DAI	Defense Agencies Initiative	GPC	Government Purchase Card
DISA	Defense Information System Agency	GPRA	Government Performance and Results Act
DLA	Defense Logistics Agency	GSA	General Services Administration
DM-I	Installation Management – Installation & Equipment	HHS	Health and Human Services
DM&R	Deferred Maintenance and Repairs	HQ	Headquarter
DoD	Department of Defense	ICOFIS	Internal Controls Over Financial Systems

ICOFR	Internal Controls over Financial Reporting	RACER	Remedial Action Cost Engineering and Requirements
ICOR-O	Internal Controls over Operations	RCRA	Resource Conservation and Recovery Act
ID	Identification	RSI	Required Supplementary Information
IH	Industrial Hardware	SAP	Systems Applications and Product
IOD	Insight on Demand	SCM	Supply Chain Management
IPA	Independent Public Accounting	SFFAS	Statement of Federal Financial Accounting Standards
IPs	Improper Payments	SFP	Standard Fuel Price
IT	Information Technology	SLOA	Standard Line of Accounting
IUS	Internal Use Software	SMS	Sustainment Management System
LOEs	Lines of Effort	SNS	Strategic National Stockpile
MAC	Moving Average Cost	SRM	Sustainment, Restoration and Maintenance
MOCAS	Mechanization of Contract Administration Services	TAS	Treasury Account Symbol
MSC	Major Subordinate Command	TDD	Treasury Direct Disbursing
NDAA	The National Defense Authorization Act	TFM	Treasury Financial Manual
NDS	National Defense Stockpile	TI	Treasury Index
TF	Transaction Fund	U.S.	United States
NFR	Notice of Findings and Recommendations	UCO	Unfilled Customer Orders
NRV	Net Realizable Value	UDO	Undelivered Orders
NSNs	Non-National Stock Numbers	UoT	Universe of Transactions
O&M	Operation and Maintenance	USACE	U.S. Army Corps of Engineers
OCONUS	Outside the Continental United States	USMC	United States Marine Corps
ODOs	Other Defense Organizations	USSGL	U.S. Standard General Ledger
OIG	Office of the Inspector General	WCF	Working Capital Fund
OMB	Office of Management and Budget		
OPM	Office of Personnel Management		
OSD	Office of the Secretary of Defense		
OUSD	Office of the Under Secretary of Defense		
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)		
P3	Public-Private Partnerships		
PAR	Performance and Accountability Report		
PDW	Procurement Defense-Wide		
POCs	Point-of-Cares		
PP&E	General Property, Plant, and Equipment		
PPA	Prompt Payment Act		
PPE	Personal Protective Equipment		
R&D	Research & Development		

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ICON + IMAGE CREDITS



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APPENDIX Title Page Image (pg.229) Captions + Credits (listed clockwise)

1. CARRIER OPERATIONS

Navy Cmdr. Matthew Sevier observes as F/A-18 Super Hornets, attached to Carrier Air Wing 8, fly in formation over the flight deck of the aircraft carrier USS Gerald R. Ford, July 8, 2023. **Photo by:** Navy Petty Officer 2nd Class Adonica Munoz

2. CARRIER OPERATIONS

Navy Cmdr. Matthew Sevier observes as F/A-18 Super Hornets, attached to Carrier Air Wing 8, fly in formation over the flight deck of the aircraft carrier USS Gerald R. Ford, July 8, 2023. The Gerald R. Ford Carrier Strike Group is on a scheduled deployment in the U.S. **Photo by:** Navy Petty Officer 2nd Class Adonica Munoz

3. CARRIER OPERATIONS

Navy Cmdr. Matthew Sevier observes as F/A-18 Super Hornets, attached to Carrier Air Wing 8, fly in formation over the flight deck of the aircraft carrier USS Gerald R. Ford, July 8, 2023. **Photo by:** Navy Petty Officer 2nd Class Adonica Munoz

4. CARRIER OPERATIONS

Navy Cmdr. Matthew Sevier observes as F/A-18 Super Hornets, attached to Carrier Air Wing 8, fly in formation over the flight deck of the aircraft carrier USS Gerald R. Ford, July 8, 2023. **Photo by:** Navy Petty Officer 2nd Class Adonica Munoz



AIR REFUEL

A Marine Corps CH-53E Super Stallion aircraft participates in an air-to-air refueling training exercise near Yuma, Ariz., March 29, 2024. **Photo By:** Marine Corps Cpl. Gideon M. Schippers



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