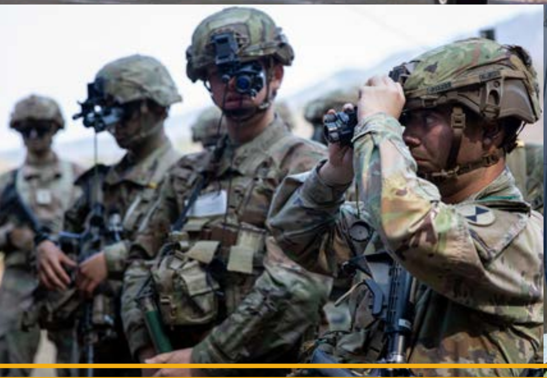
DEFENSE LOGISTICS AGENCY

THE NATION'S LOGISTICS COMBAT SUPPORT AGENCY



FY2025

AGENCY FINANCIAL REPORT

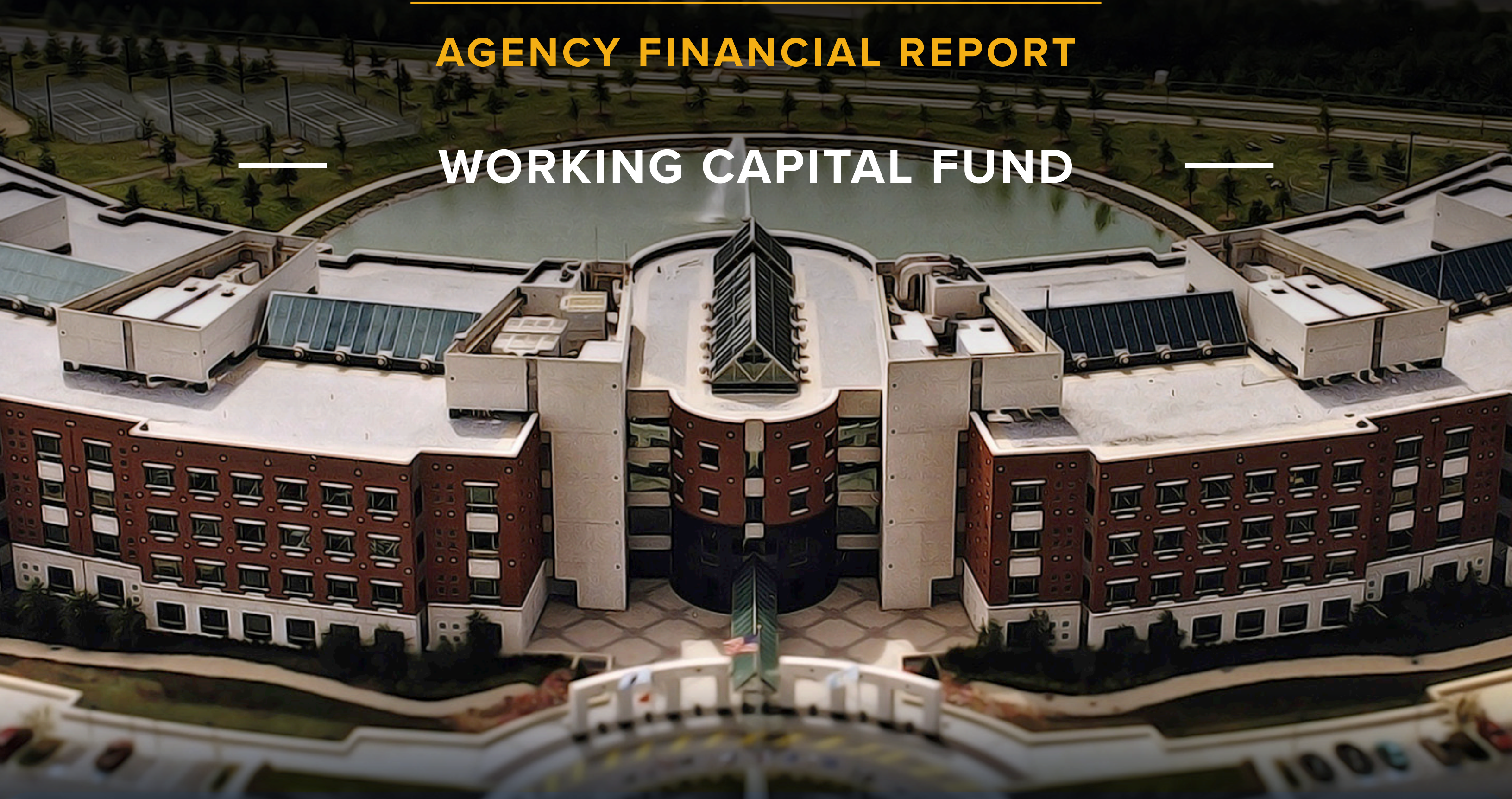
WORKING CAPITAL FUND

(UNAUDITED)

DLA
FISCAL YEAR 2025

AGENCY FINANCIAL REPORT

WORKING CAPITAL 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. The 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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WORKING CAPITAL FUND

To meet the demands of today’s transformative era characterized by the contested logistics environment, DLA must transform its ability to fulfill its responsibilities to our Nation’s Warfighters.

WARFIGHTERS ALWAYS

DLA FISCAL YEAR 2025

MESSAGE FROM THE DIRECTOR

On behalf of the Defense Logistics Agency (DLA), I am honored to present the Fiscal Year (FY) 2025 Agency Financial Report (AFR). DLA operates within a dynamic and increasingly contested global environment, where the efforts of the Military Services, Combatant Commands, and DLA are challenged by adversaries across all domains and at all levels of war.

To effectively support the Services and Combatant Commands in this transformative era, DLA has recalibrated its strategic approach, adapting to the evolving warfighting concepts, doctrine, training, and equipment of our armed forces. This recalibration focuses on transforming DLA's capabilities, strengthening strategic partnerships, and implementing more resilient supply chain solutions, all with a singular focus on enhancing our combat support mission. DLA remains steadfast in its commitment to continuously improve its capabilities and capacity to deliver agile, adaptive, and resilient logistics support across the full spectrum of conflict, thereby serving as an indispensable component of the warfighting team.

In FY 2025, DLA's operational impact has been guided by our DLA Strategic Plan 2025—2030, "DLA Transforms: A Call to Action," which has helped us stay laser-focused on how we deliver logistics in a contested, dynamic battlespace. Focused on People, Precision, Posture, and Partnerships, its framework is designed not just to guide us, but to transform us. It reminds us that transformation starts with our people, is driven by precision in execution, requires strategic posture across the globe, and is sustained through strong partnerships. Key to the "Precision" imperative are our efforts to achieve audit goals, establish effective internal controls, and enhance accountability.

Our ninth annual audit revealed notable improvements in our data analytics and Information Technology systems, indicating continued progress toward achieving a favorable audit opinion. This progress is supported by our commitment to lead in innovation, digital interoperability, and cutting-edge technology, all resting on a strong financial foundation and precise financial management practices.

While DLA continues to improve, a disclaimer of opinion was issued on the Working Capital Fund AFR by Ernst & Young. DLA acknowledges these findings and remains fully committed to addressing identified material weaknesses in policies, asset accounting, financial systems, reporting, and record completeness.

As Director, I am privileged to serve alongside the extraordinary men and women of the DLA team, whose unwavering commitment strengthens our support to Warfighters and fortifies our nation's defense. This report reaffirms our pledge to excellence in resource stewardship—driven by efficiency, accountability, and transparency. I extend my deepest thanks to all whose dedication and collaboration continue to propel our mission forward and elevate the standard of military logistics. WARFIGHTER ALWAYS!

Mark T. Simerly,
LTG, USA
Director

Food Boarding
The DLA Troop Support Subsistence team provides the military with fresh fruits and vegetables, baked and dry goods and so much more. At Naval Station Norfolk, Contract Stevedores receive the food and send it on its way to the Galley aboard the USS Normandy (CG-60). **Photo by:** Nutan Chada

DLA FISCAL YEAR 2025

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am proud to lead the Defense Logistics Agency financial enterprise in support of a Global and critical Combat Support Agency mission. The Director's primary focus for increasing the Nation's capabilities is presented throughout the ninth FY 2025 AFR. This AFR provides critical insights into DLA's logistics' operations achievements, and ongoing challenges, reflecting our steadfast commitment to delivering value, efficiency, and robust financial stewardship across all programs.

For FY 2025, DLA received a disclaimer of opinion on its WCF financial statements. To address this, DLA is actively pursuing a favorable audit opinion through enterprise-wide initiatives meticulously designed to remediate existing material weaknesses. Following the Agency's transformation imperatives, DLA is harnessing the power of our digital platforms and business processes to achieve the precision required for a successful audit. The transformation combined with the systematic identification of financial reporting risks and the development and implementation of appropriate controls is leading us to effectively mitigate the risks.

DLA's enterprise-wide initiatives strategically enhance financial operations, optimize systems, and strengthen risk management to improve value for the Warfighters and partners. DLA remains committed to upgrading systems, remediating key audit findings, and strengthening data and controls to achieve unmodified audit opinions and sound financial stewardship. The upcoming transitions to the Systems, Applications and Products in Data Processing, Suite Fourth Generation for the High-Performance Analytic Appliance, and Government Invoicing are foundational shifts enabling proactive data management, streamlined operations, and strengthened financial accountability. These pivotal initiatives represent more than mere system upgrades; they are transformative shifts in how we proactively manage data, strategically streamline operations, and rigorously strengthen financial accountability across the enterprise.

In the DLA operational environment, we are dedicated to leveraging advanced data analytics, robust internal controls, and streamlined business processes to elevate the quality, accuracy, and timeliness of financial reporting. A core strategic priority is the continuous enhancement of financial management capabilities through the strategic integration of Artificial Intelligence (AI). We have launched a new AI-focused SharePoint platform to serve as the central resource for leveraging AI to further enhance our financial operations. This strategic integration will enable us to proactively identify and mitigate risks, effectively overcome challenges, and implement targeted corrective actions to remediate material weaknesses. Our overarching vision is to deliver world-class fiscal stewardship and strategically optimized resource allocation to significantly enhance Warfighter readiness and lethality. We are committed to providing reliable, well-supported budget requests and producing consistently auditable financial statements, thereby demonstrating our unwavering commitment to the responsible management of American taxpayer funds and ensuring Financial Global Logistics Excellence. WARFIGHTER ALWAYS!

Susan Goodyear,
Director, DLA Finance
Chief Financial Officer

Warfighter Support
Bri Flanagan, a program and management assistant for Defense Logistics Agency Land and Maritime, examines a Howitzer in repair at the Ohio Army National Guard's Combined Support Maintenance Shop located on Defense Supply Center Columbus during a tour of the facility. The tour provided insight into DLA Land and Maritime's essential contributions to the CSMS's daily operations and, more importantly, underscored how strategic partnerships directly amplify warfighter support. **Photo by:** Ilea Hamrick/ DSCC

FY 25

AGENCY FINANCIAL REPORT

WORKING CAPITAL FUND

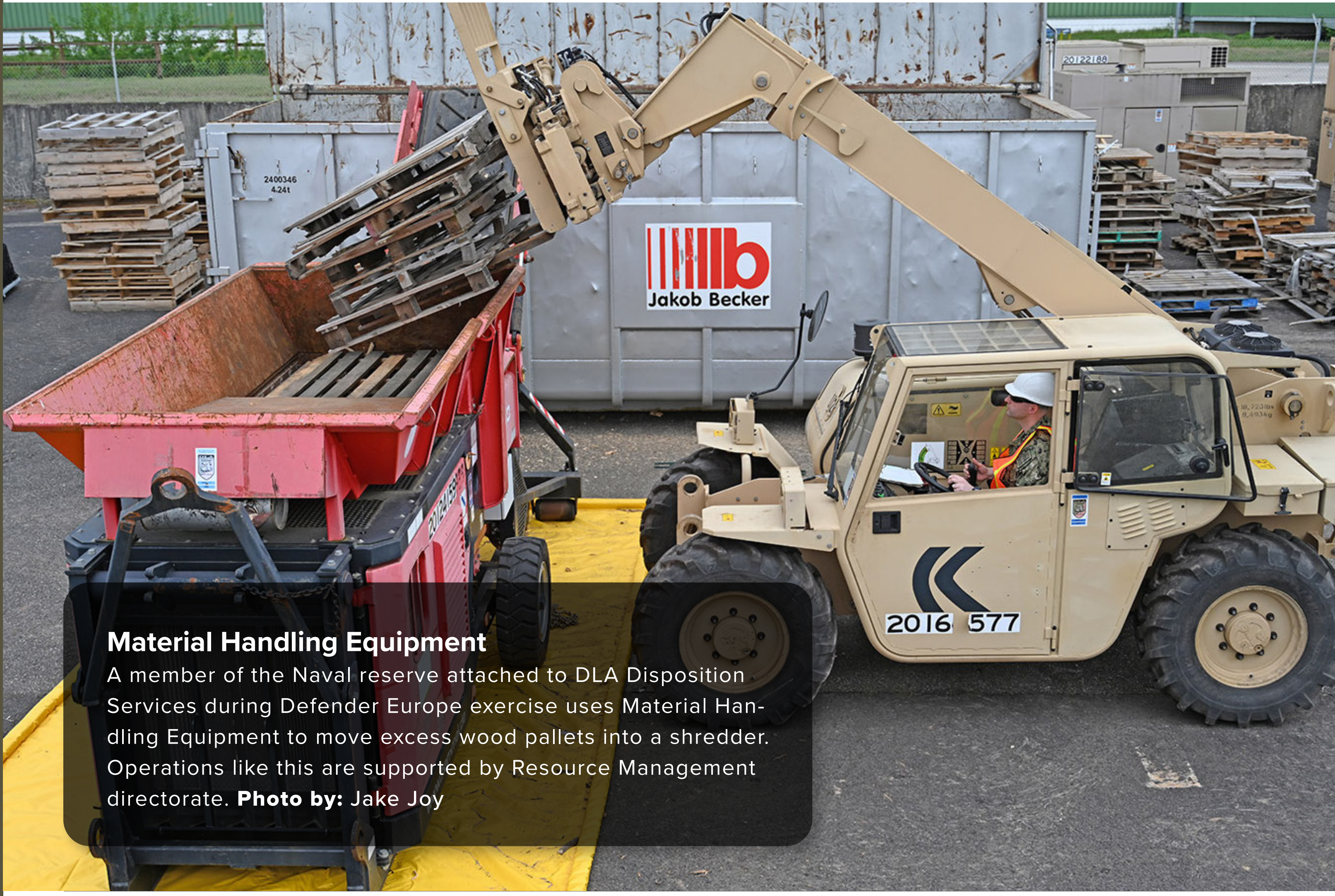
SECTION 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

SECTION 1

Management's Discussion and Analysis (Unaudited)

In this section:



Material Handling Equipment
A member of the Naval reserve attached to DLA Disposition Services during Defender Europe exercise uses Material Handling Equipment to move excess wood pallets into a shredder. Operations like this are supported by Resource Management directorate. **Photo by:** Jake Joy

MISSION AND ORGANIZATIONAL STRUCTURE

Note: The DLA acknowledges the recent Executive Order 14347, which directed the renaming of the Department of Defense to the Department of War. DLA is also committed to ensuring compliance with all applicable legal requirements, and accordingly, throughout this report DLA will adhere to the established legal principle that statutory references to the Department of Defense and its components shall remain controlling until amended by law.

Mission

As the nation's logistics combat support agency, the Defense Logistics Agency (DLA) manages the end-to-end global defense supply chain, from raw materials to end user disposition, for the five military services, 11 combatant commands, other Federal, state, and local agencies, and partner and allied nations.

The DLA's mission is to "Drive and sustain Warfighter readiness by delivering unmatched global support as the Nation's Logistics Combat Support Agency." To accomplish this mission, DLA has a staff of approximately 25,000 military and civilian personnel divided into multiple supply chains that contract for material and services across the military classes of supply, to include: subsistence (food/water), clothing and textiles, bulk petroleum and other energy products, construction material and equipment, personal demand items, medical material and equipment, and repair parts for land, sea and air systems.

The DLA manages approximately five million National Stock Numbers (NSN) and provides roughly $47 billion in goods and services annually, to include services such as warehousing, packaging and transportation. In addition to supporting the nation's military services, DLA supports 40 Federal agencies, 50 state agencies, 300 local agencies, and 118 international Partners. Additionally, DLA provides food, fuel, and generators to the Federal Emergency Management Agency (FEMA) for hurricane relief support; fresh fruits and vegetables to the Department of Agriculture; medical and surgical support items to the Department of Veterans Affairs; and batteries, fire hoses, and meals to the U.S. Forest Service to provide aid to Whole of Government (WoG) customers.

Furthermore, DLA supplies military spare parts, fuel, and consumables; manages the reutilization of military equipment; provides catalogs and other logistics information products; and offers document automation and production services to a host of military and Federal agencies. Headquartered at Fort Belvoir, Virginia, DLA is a global enterprise; wherever the United States has a significant military presence, DLA is there to support.

HISTORY of DLA

1961

The DSA is established.

1965

Active combat units deploy to Vietnam. By 1969, more than 500,000 U.S. troops in the country.

1977

DSA is redesignated the Defense Logistics Agency in recognition of its broadened mission responsibilities.

1986

The Goldwater-Nichols Reorganization Act designates DLA a combat support Agency.

1988

DLA assumes management of the nation's strategic stockpile from the General Services Administration and Federal Emergency Management Agency. Headquarters and Defense Fuel Supply personnel learn that they will be moving from Cameron Station to Fort Belvoir.

1993

DLA forms integrated business units for supply management, distribution, and contract management, reducing the number of organizations reporting directly to the DLA director from 42 to 6.

2005

DLA provides support in the wake of Hurricane Katrina.

2012

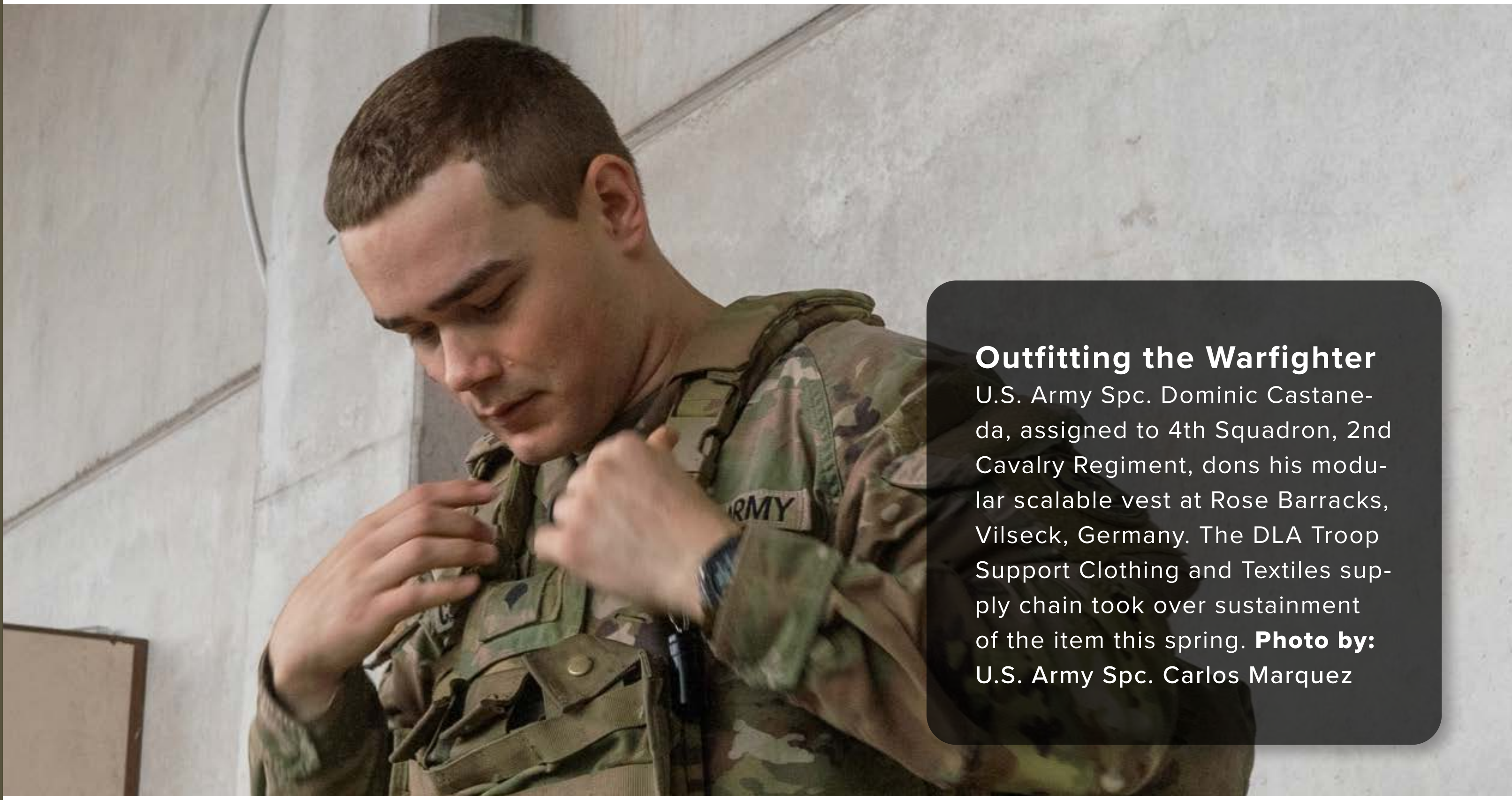
DLA delivers more than 6.2 million meals, 172,500 blankets, and 14 million gallons of fuel to areas affected by Hurricane Sandy.

2014-15

DLA helps West Africa combat the Ebola virus by providing goods and services in Operation United Assistance.

2020-25

DLA supports efforts to combat the coronavirus by providing personal protective equipment and ventilators to the American people through the Federal Emergency Management Agency and Department of Health and Human Services. It also acts as a purveyor of information, feeds naval crews on lockdown, reutilizes life-saving equipment, and delivers vaccines to the military's overseas locations.



Outfitting the Warfighter
U.S. Army Spc. Dominic Castaneda, assigned to 4th Squadron, 2nd Cavalry Regiment, dons his modular scalable vest at Rose Barracks, Vilseck, Germany. The DLA Troop Support Clothing and Textiles supply chain took over sustainment of the item this spring. **Photo by:** U.S. Army Spc. Carlos Marquez

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

DLA Organizational Structure

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

Figure 2: DLA Organizational Structure

WORKING CAPITAL FUND

The DLA manages a Working Capital Fund (WCF) which ensures public accountability for budgetary resources through rigorous planning, execution, and monitoring of obligations in excess of $61.9 billion annually. DLA WCF provides critical support services to the American Warfighter by obtaining its operating resources through contract authority for its three major activity groups (Energy, Supply Chain Management (SCM), and Document Services), which comply with Federal laws and regulation. As a single, integrated business enterprise, DLA WCF focuses on supporting Department of Defense (DoD) components, other Federal Agencies, and public entities, enhancing the Armed Forces' readiness, and providing for the Warfighter during contingency operations. DLA WCF manages eight supply chains through the Energy and SCM activity groups.

Energy

The DLA Energy activity group manages the Energy supply chain and provides comprehensive energy solutions to DoD components, (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities worldwide. Major product areas include Aerospace Energy, Bulk Petroleum Products, Direct Delivery Fuels, and Installation Energy. Additionally, DLA Energy provides services such as government fuel cards, quality-related services, international fuel agreements, utility services contracts, and research and development (R&D) of alternative fuels to customers.

SCM

DLA SCM provides logistics and material process management to get the right items to the right customers on time. To do this, DLA SCM develops policy, guidance, and effective oversight to ensure an efficient supply chain performance. DLA SCM integrates strategic, operational, and tactical perspectives, command and control functions for contingency operations and adaptive planning to influence the logistics supply chain and operate a global network of distribution centers and disposition services for reutilization, transfers, and donations.

Document Services

DLA Document Services offers a wide range of services including document workflow conversion, electronic storage and output, multifunction devices, and distribution of hard copy and digital information. These services are available to DLA WCF customers and other Federal Agencies. Document Services help customers reduce storage costs, increase information sharing efficiency, and provide enhanced functionality.

Supporting the Guardians of the U.S. Space Force with DLA Troop Support Clothing & Textiles

Leonard Johnson, Product Specialist, Hang Nguyen, Quality Assurance Specialist, Angela Maragni, Product Specialist check out a U.S. Space Force Guardian uniform. This team is part of DLA Troop Support Clothing and Textiles Supply Chain based out of Philadelphia, PA, and their goal is to always provide all their customers with the best clothing and textiles available. November 12, 2024. **Photo by:** Nutan Chada, DLA Public Affairs

DLA Energy and SCM collaborate with Distribution and Disposition Services to form the six Major Subordinate Commands (MSCs) (as depicted in Figures 2 and 3). The MSCs facilitate the acquisition, distribution, and disposal of supplies. DLA Energy manages the Energy MSC, while SCM oversees the other five MSCs. In its support role, Distribution provides global storage and distribution services to the eight supply chains (Energy, Aviation, Land, Maritime, Subsistence, Medical, Clothing and Textiles (C&T), and Construction and Equipment (C&E)), while Disposition Services partners with DLA WCF's supply chains, DoD components (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities to reutilize, transfer, sell, and donate surplus property and dispose of hazardous waste.

Six Major Subordinate Command/Business Units

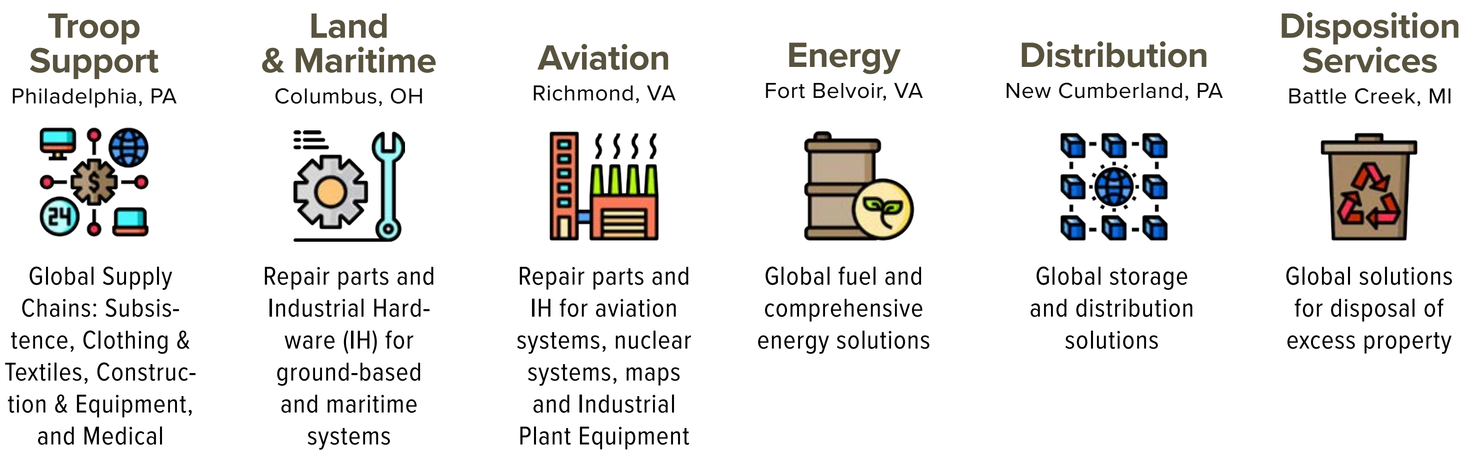
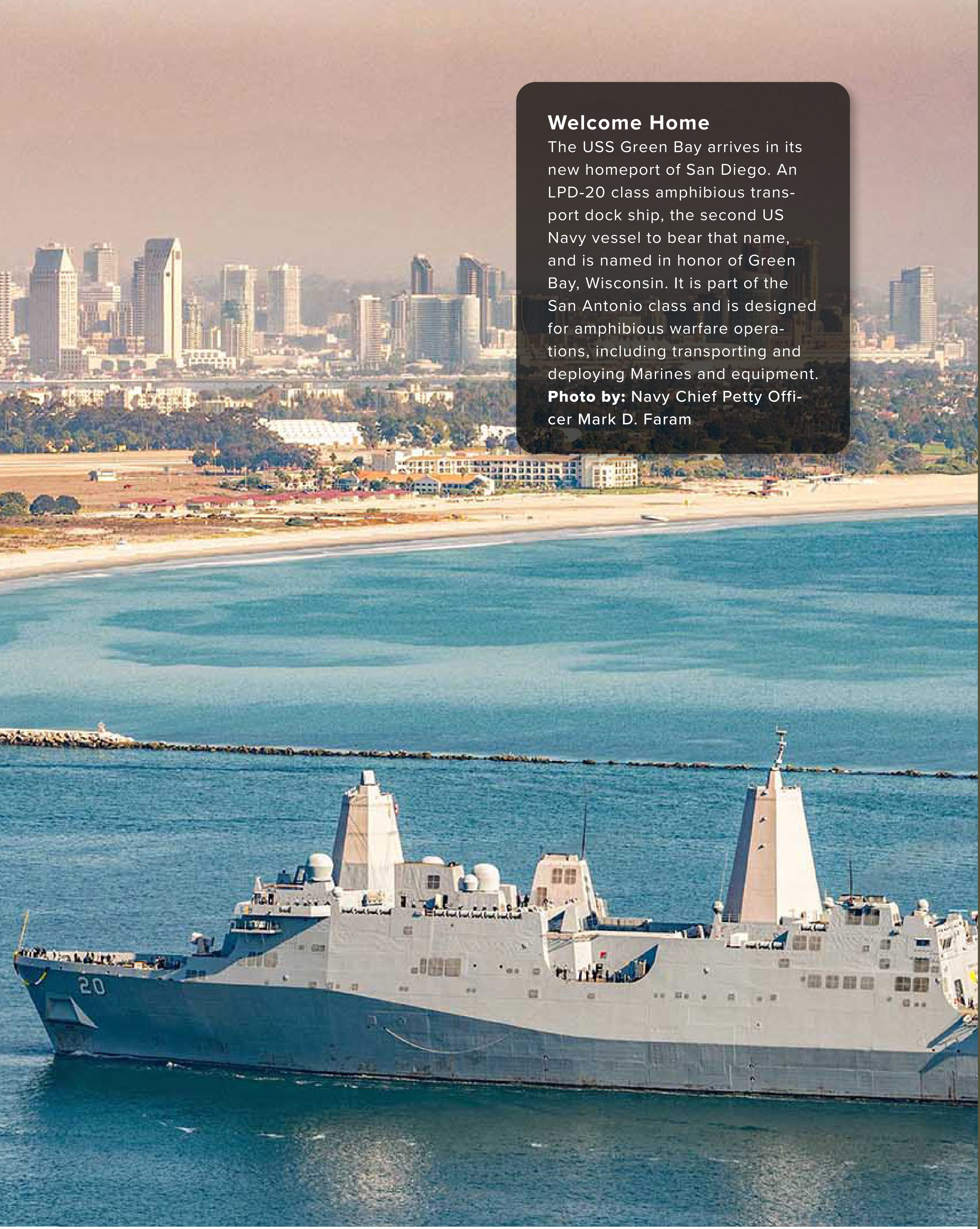


Figure 3: DLA MSC Chart

Aerial Refueling
An Air Force Pave Hawk helicopter conducts air-to-air refueling training with an HC-130J Combat King II aircraft over northern California. **Photo by:** Air Force Staff Sgt. Duane Ramos



Welcome Home
The USS Green Bay arrives in its new homeport of San Diego. An LPD-20 class amphibious transport dock ship, the second US Navy vessel to bear that name, and is named in honor of Green Bay, Wisconsin. It is part of the San Antonio class and is designed for amphibious warfare operations, including transporting and deploying Marines and equipment. **Photo by:** Navy Chief Petty Officer Mark D. Faram

KEY PERFORMANCE RESULTS

Agency Strategic Goals

The DLA released its new Strategic Plan 2025-2030, *"DLA Transforms: A Call to Action"*. The DLA highlights five DLA values, six operating principles, and more importantly, four transformation imperatives for the next five fiscal years that will help achieve the Agency's mission. A copy of DLA's Strategic Plan 2025-2030, *"DLA Transforms: A Call to Action"* is available at https://www.dla.mil/Info/Strategic-Plan/.

In the Strategic Plan, DLA laid out four goals and nineteen objectives. The Agency will work to achieve corresponding key results in the next five years. Some of these objectives and results are reflected in the DLA FY 2024 Annual Report (published in February of 2025).

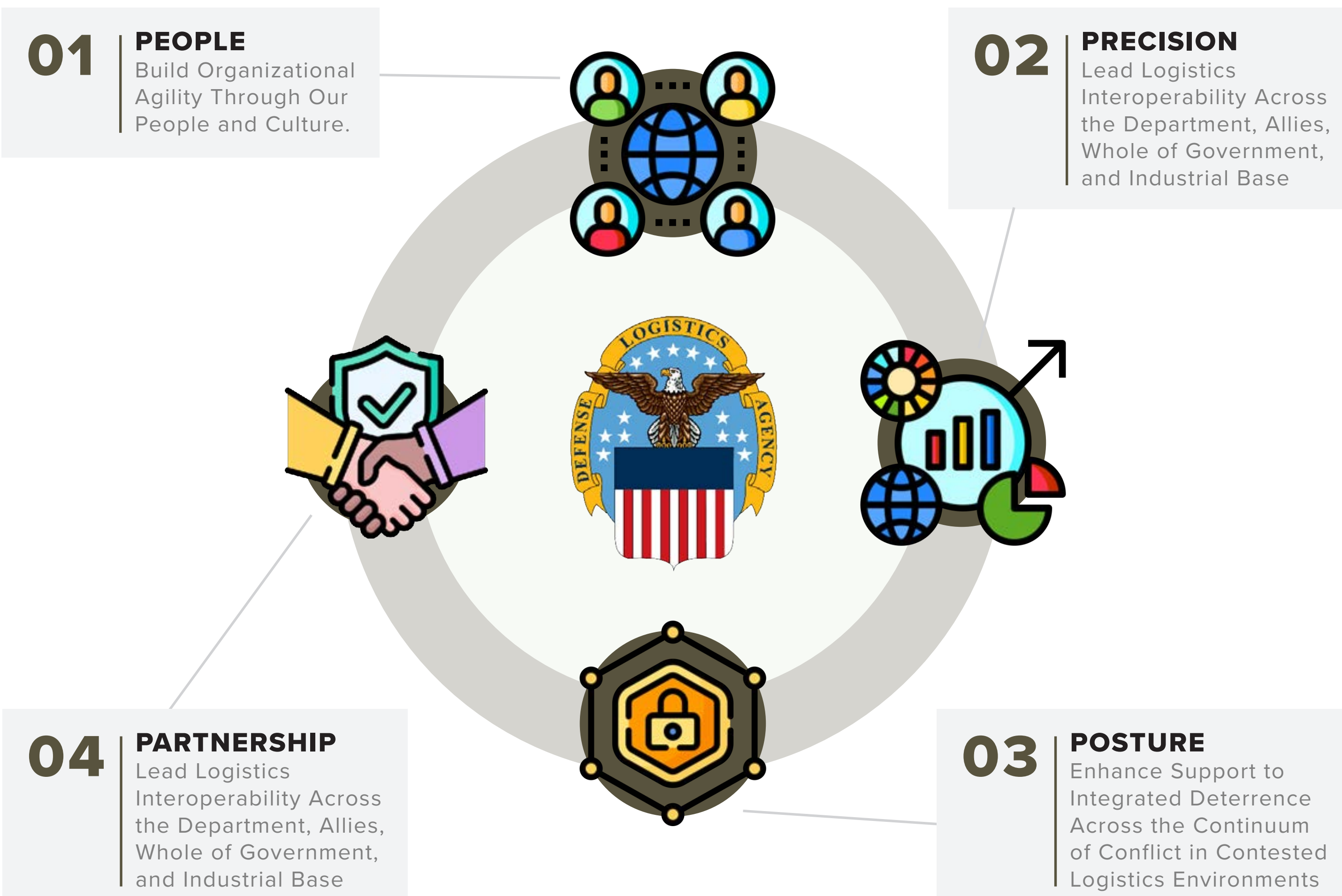


Figure 4: Strategic Plan goals

The DLA's top priority is Warfighter readiness. In FY 2025, through its agile and resilient workforce, precise logistics solutions, posture across the global logistics environment, and partnerships with the Military and civilian departments and the private industry, DLA will continue to work tirelessly to achieve its key objectives and results to serve America's Warfighters.

The DLA uses Inventory Readiness Factor to support increased supply availability and ensure DLA-managed parts keep over 2,500 weapon systems operational. This proactive approach is key to the Services' ability to fight and win the Nation's wars, and it's a shared responsibility among the Services, Industry, and DLA. In FY 2025, spare parts for weapons systems continued to be a challenge. The DLA began implementing procedures to improve forecasting, align funding with strategy, reduce backorders, and increase industrial capacity. In FY 2026, DLA expects to gain insight and apply it to further development of DLA supply chain strategies.

Key Performance Results

The results presented in this section are derived from performance data in the FY 2024 DLA Annual Report (published in February of 2025) and are aligned with the strategic goals in the Strategic Plan 2025-2030. For each measure in the Annual Report, DLA sets a target that drives continuous improvement.

For FY 2025, DLA WCF had a total of $62.4 billion in Budgetary Resources, including $61.6 billion in Contract Authority, $330.1 million in Spending Authority From Offsetting Collections, and $2.3 million in Appropriations. Of these Budgetary Resources, DLA WCF obligated $61.9 billion as of September 30, 2025. DLA Energy incurred approximately $12.5 billion in costs and $12.2 billion in revenues in FY 2025. Supply Chain Management incurred costs in the amount of $42.8 billion and collected $40.6 billion in revenues. Document Services incurred $247.7 million in costs and $270.0 million in revenue. The key performance results for each of these responsibility segments are discussed in the following paragraphs.

Energy

The DLA WCF supports Federal Civilian Agencies, including DoD components, and non-Federal parties through its fuel sales program that is managed by DLA Energy. DLA Energy reports revenues on a net basis (gross revenues less direct cost). As of September 30, 2025, DLA Energy budgeted to sell 82.4 million barrels and $12.7 billion dollars of fuel to these partners; and has sold 76.5 million barrels and $11.8 billion dollars of fuel to these partners.

Additionally, DLA Energy works to expand their partnerships globally; DLA Energy's international agreements team continues to strengthen and build relationships through Fuels Exchange Agreements Forums. For the 19th year, DLA Energy Europe and Africa held a forum with more than 80 leaders from 14 European countries. In the Indo-Pacific region, the inaugural forum included more than 60 representatives with plans to increase participation next year.

To enhance fuel transaction accuracy and strengthen operational capabilities in support of DLA's 2025-2030 Strategic Plan Precision and Posture strategic goals, DLA Energy Business Process Support successfully implemented a state-of-the-art Electronic Point of Sale (EPoS) system during FY 2025. This replaced the legacy Automated Fuel Service Station system at Defense Fuel Support Points worldwide, delivering a more secure, automated, and mobile platform that significantly improves the agency's audit responsiveness capabilities. The EPoS system completed deployment across scheduled locations, successfully entering the sustainment phase with demonstrated system stability and effective user adoption.

Supply Chain Management

The DLA SCM strives to supply the Warfighter in a timely, effective, and efficient manner. The DLA's average time to fill back orders and Non-Mission Capable Supply (NMCS) Supply Availability are effective measures of key results in supporting the Precision and Posture goals outlined in the Strategic Plan. These metrics measure how effective DLA is at filling customer orders. These metrics have trended in the wrong direction for the past three years due to: poor vendor performance, consistently poor customer requirement forecasting, and an inability to execute DLA's supply plan. The DLA SCM carries $15.4 billion in inventory to ensure the inventory is on the shelf in advance of NMCS requisitions. The DLA, also, currently has $13.6 billion in open procurements aimed at putting stock on the shelf in advance of NMCS requisitions and resolving open back orders.

The DLA SCM continues to make strides in forecasting supply needs for the Warfighter in a timely, effective, and efficient manner. The following analysis applies to NMCS. The results display acquisition and supply activities for regular procurement items. The DLA continues its efforts in meeting supply availability expectations by employing smart budgetary resources use techniques and leveraging rapid acquisition opportunities. Supply Availability's target expectation range, per Office of the Secretary of Defense (OSD) requirements, is 82.0% to 89.0%, providing an aggregate target of 83.0%. As of September 30, 2025, DLA achieved the following supply availability rates for the military services: 73.2% for Air Force, 85.6% for Army, 76.5% for Navy, and 85.7% for Marine Corps.

The DLA WCF tracks the average amount of wait time in days that occurs to fill back orders for its SCM and aims to minimize the amount of time required to fill backorders to increase the readiness of the Warfighter. Additionally, DLA WCF SCM applies variable strategic acquisition techniques to minimize supply wait times.

As of September 30, 2025, Aviation had 168.3 days Wait Time to fill back orders, Land 144.7 days, Maritime 180.8 days, C&E 148.9 days, and C&T 64.8 days, respectively. WCF SCM will continue to evaluate supply orders, storage, and distribution processes. The DLA plans to implement cost-justified modifications to increase efficiency and supply availability.

For SCM Medical and Subsistence "Prime Vendor Fulfillment" for Prime Supply Orders to Supply Chains, DLA's Troop Support Major Subordinate Command utilizes a Prime Vendor business model to feed and medically support the Warfighter and whole of government customers. This construct empowers DLA's vendors to directly support DLA's customers without DLA owning inventory, forecasting, warehousing, or procuring material. The DLA uses the Prime Vendor Fulfillment (PVF) metric to assess the vendors' ability to fulfill orders within the required time frame and with the correct quantities and products. The PVF metric is broken into three categories that support different DLA missions: DLA Medical's ability to fulfill pharmaceutical orders, DLA Medical's ability to fulfill surgical orders, and Subsistence's ability to fill food orders. Prime Vendor Fulfillment target goals are 90.0% for Medical Pharmaceutical, 87.0% for Medical Surgical, and 95.0% for Subsistence. As of September 30, 2025, Medical Pharmaceutical fulfillment was 97.4%, Medical Surgical fulfillment was 89.6%, and Subsistence fulfillment was 97.6%.

Document Services

DLA Document Services serves as the single manager for document services for the DoD components. DLA Document Services continues to provide document

DLA Contracting
Defense Logistics Agency personnel work in tandem with United States Army Corps of Engineers to process surplus construction material in Guadalupe Canyon, Arizona. **Photo by:** DLA Disposition Services

management to DoD Components, including Military Departments, in accordance with Department of Defense Instruction (DODI) 5330.03 and in support of DLA's "Precision" strategic imperative. This includes office printing devices and services, including scanning and conversion services. Other Executive Branch Federal agencies document service requirements can also be supported by the authorities assigned to Document Services.

As of September 30, 2025, DLA Document services focused on continuing to reduce its negative accumulated operating result (AOR), while also focusing on infrastructure and risk reduction. DLA Document Services divested three non-core missions in FY 2025, thereby contributing to further gains in burning down its negative Net Operating Result (NOR). At the current rate, the AOR will be neutral by the end of FY 2027. Risk reduction efforts such as occupational safety, security, and sustainment/restoration/maintenance assessments continue to inform DLA Document Services of the types of investments it must make to sustain its operations while ensuring a safe working environment. Over $3.3 million of FY 2025 funding has been committed to reduce risk in these areas.

Significant Opportunities and Significant Risks

Energy

When operating in contested environments, the end-to-end bulk fuel supply chain, from acquisition and global transport through tactical distribution and storage, faces heightened vulnerability. Disruptions can occur at any stage, including chartered vessel movement, Defense Fuel Support Point (DFSP) operations, and the "last tactical mile" to the warfighter.

DLA Energy's implementation of System Applications and Products' (SAP) Integrated Business Planning (IBP) System will improve sales forecasting. Additionally, within IBP, Demand and Supply Planning coexist in the same environment resulting in increased efficiency and communication which translate to better posturing of energy materials. Enhanced planning capabilities with IBP allow for more timely reactions to contingencies and unforeseen circumstances. With these capabilities, DLA Energy expects positive impacts and the attainment of its strategic results.

Among the risks for DLA Energy are:

1. Increased operational complexity for transporting Class IIIB fuels (JP5, F76) in regions where access may be denied or restricted.
2. Potential for delayed delivery or degraded readiness due to supply chain interruptions in a contested environment.

To protect strategic performance, DLA Energy mitigates these risks through continuous coordination with combatant commands, industry partners, and host nations, leveraging scenario-based planning and quarterly stakeholder reviews. These efforts ensure reliable fuel delivery and reduce operational delays.

Supply Chain Management

The DLA is concerned the shrinking industrial base will impact its ability to support DLA's requirements. The shrinking industrial base's inability to deliver goods in a timely manner results in back orders, shrinking supplies and empty shelves. The DLA is using Artificial Intelligence (AI) to better predict vendor performance for their delivery of goods and materiel, enabling DLA to have materiel in stock, on the shelf when customers need them. The DLA implemented prudent financial management measures to carefully manage inventory replenishment levels and optimize resource allocation. While these measures temporarily influenced SCM metrics, they were a necessary step to maintain financial stability. With these financial management measures successfully concluded, DLA is now returning to normal operating procedures. We anticipate that the restoration of regular replenishment levels will lead to improved SCM metrics and strengthened defense industrial base, ensuring continued support for our warfighters. The DLA has several advanced analytic projects aimed at improving these key metrics. The DLA is re-engineering its planning algorithms to better predict demand using Artificial Intelligence/Machine Learning (AI/ML).

Additionally, DLA has implemented an improved algorithm to better estimate vendor delivery times, which has shown encouraging results and expected to reduce DLA's demand for inventory.

Document Services

DLA Document Services continued its 76-year history of providing print, equipment, and document scanning solutions to America's Warfighters throughout 2025. In total, DLA Document Services received 50,355 jobs requesting estimates and that resulted in 43,485 billed orders.

Within its leased and purchased equipment line of business, DLA Document Services leased over 62,000 multifunction devices, accounting for thousands of customer accounts and multi-year contracts. Finally, the document conversion business line provided value-added services for the Warfighter by reducing countless volumes of paper documents to digital media. Document scanning reduces warehousing costs while improving auditability through integral records management.

DLA Document Services was measurably successful in achieving its Annual Operating Plan (AOP) internal goals. These accomplishments included transferring the central data library and Acquisition Streamlining and Standardization Information System (ASSIST) Program to DLA J3, Plans Executive Directorate and the Defense Standardization Program Office, respectively. Additionally, Document Services transferred its U.S. Postal Service document scanning function to that organization, while also transferring many of its call center functions to the DLA Customer Interaction Center. Additionally, Document Services mitigated many of its critical risks, to include security, occupational safety and health, protection of classified information, and facility maintenance.

As part of DLA's Mission Validation Review Panel (MVRP) and Mission Capability Review Panel (MCRP), the Institute for Defense Analyses (IDA) is assessing Document Services to determine whether or not increased performance and customer cost savings can be achieved by centralizing document management across the DoD. Working with a DLA integrated process team, a final assessment report with recommendations to the Director will be presented in early FY 2026. Based on the IDA/MVRP/Document Services Consolidation and Reform Plan (DCRP) recommendations and subsequent DLA leadership decisions, the intent is to continue to answer the call to action by completing the integration, reforming its operation, improving its processes, reducing the risk to the Agency, and achieve economies of scale by growing its customer base. Presently, DLA Document Services is suspending its strategic plans and opportunity development pending an OUSD decision on the future of document services management under DLA.

Ready for Takeoff
An MH-60S Seahawk prepares to take off from the flight deck of the aircraft carrier USS Carl Vinson (CVN 70) in the Sea of Japan. DLA Land and Maritime's Specialized Management Operations Directorate manages critical weapon system parts for the Nuclear Reactor Program, keeping aircraft carriers afloat deterring the nation's enemies. **Photo by:** U.S. Navy Mass Communication Specialist 2nd Class Isaiah Goessl

High-Speed Support

A U.S. Air Force B-1B Lancer aircraft assigned to the 34th Expeditionary Bomb Squadron at Ellsworth Air Force Base in flight over the United States. The B-1 is a long-range, supersonic bomber built for high-speed, low-level missions and heavy conventional payloads. DLA Land and Maritime directly supports about 33,000 parts for the B-1B Lancer. **Photo by:** U.S. Air National Guard Senior Airman Halley Clark

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

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

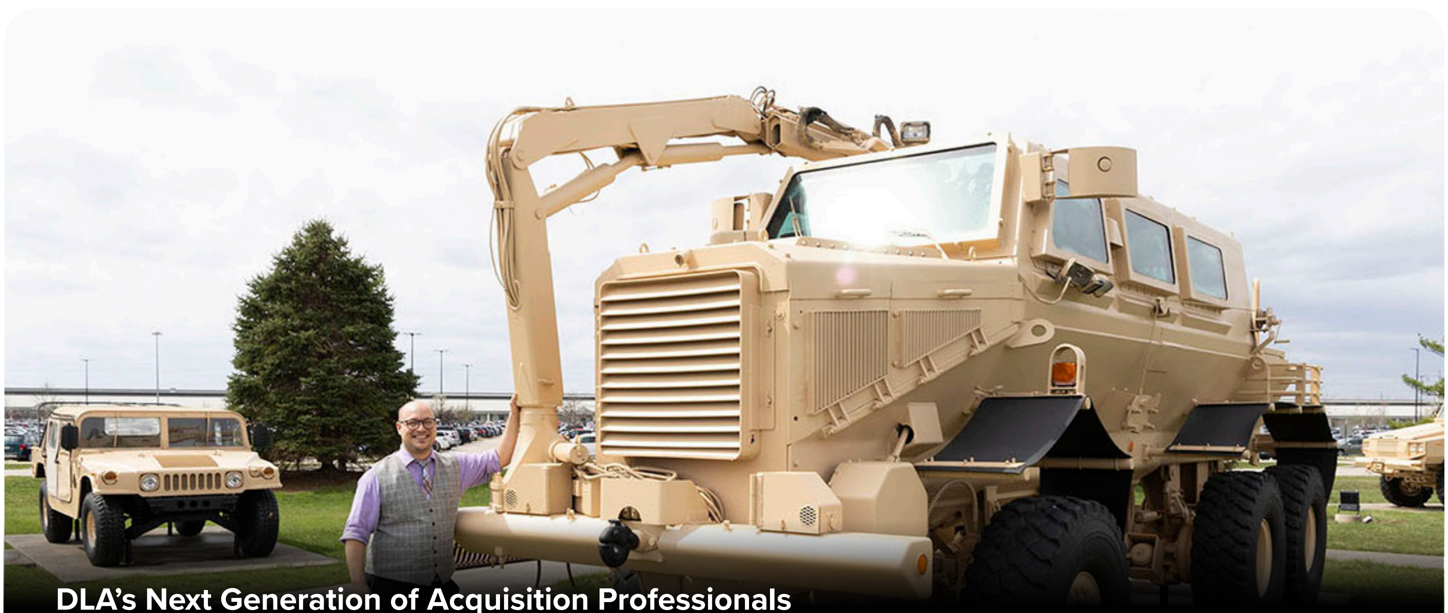
Preparing DLA WCF financial statements is a vital component of sound financial management and is intended to provide accurate, accountable, and reliable financial information that is useful for assessing performance, allocating resources, and for decision making on focus areas for future programmatic emphasis. The DLA management of DLA WCF is responsible for the integrity and objectivity of the financial information presented in the statements and dedicated to achieving excellence in financial management.

FINANCIAL POSITION AND FINANCIAL CONDITION

Overview Financial Position

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

A summary of DLA WCF's changes in key financial measures, as of September 30, 2025, is presented in the following Key Financial Measures table (see Figure 6). The table represents the assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the gross cost of executing DLA WCF programs, less earned revenue.



DLA's Next Generation of Acquisition Professionals
Stephen Shaw, a DLA Land and Maritime procurement analyst, stands alongside a Buffalo Mine Resistant Ambush Protected Vehicle at Defense Supply Center Columbus' Mission Park. This specialized route clearance vehicle is equipped with an articulated robotic arm designed for disposal of mines, improvised explosive devices and other hazards. **Photo by:** Arthur Hylton/DSCC

Budgetary Resources

The DLA WCF total budgetary resources status at the end of the fiscal year are represented in the table below. These resources represent the total amount that DLA WCF had available to spend for FY 2025, in accordance with Federal statutes and related regulations. WCF's obligations may be incurred, and payments made only to the extent that budgetary resources are available to cover such items. In FY 2025, the Department reported $62.4 billion in total budgetary resources (see Figure 5):

Summary of Budgetary Resources		
As of and for the Year Ended September 30, 2025 (dollars in millions)		
Unobligated Balances, from Prior Year Budget Authority	$	548.5
Appropriations Received		2.3
Contract Authority		61,560.2
Spending Authority from Offsetting Collections		330.1
TOTAL BUDGETARY RESOURCES	**$**	**62,441.1**

Figure 5: Summary of Budgetary Resources

Appropriations Received had a balance of $2.3 million as of September 30, 2025. DLA Energy received $2.3 million in direct appropriation for Red Hill response activities.

Contract Authority had a balance of $61.6 billion as of September 30, 2025. SCM represents $44.6 billion (72.5%) of the total balance. This balance includes a mid-year increase for Troop Support of $5.9 billion to support a strategic shift toward leveraging direct vendor relationships and enhancing weapons systems readiness. Contract authority allowed SCM to maintain an adequate level of supply and meet the DoD requirements. Energy activities accounted for $17.0 billion (27.5%) of the total balance.

New Obligations and Upward Adjustments had a balance of $61.9 billion as of September 30, 2025. SCM activities accounted for $44.6 billion (72.0%). The business events for this amount include:

- Ukraine and Israel Operations support
- Pharmaceutical mail-order specialty drugs
- Military readiness support and Next Generation (NEXTGEN) and Peak programs
- Industrial, Plant, and Equipment (IPE) procurements

Energy activities accounted for $17.0 billion (27.4%) of the total balance.

Net Outlays had a balance of $516.4 million as of September 30, 2025. SCM activities accounted for $290.0 million (56.1%) from spending for Ukraine and Israel Operations support. Energy activities accounted for $250.3 million (48.5%) from fuel purchases. Document Services collections outpaced disbursements, resulting in a reduction of $23.8 million (4.6%) in net outlays.

Financial Performance

FY 2025 Financial Performance Summary

As of and for the Year Ended September 30, 2025 (dollars in millions)

Financial Condition		(Unaudited)
Fund Balance with Treasury	$	2,969.3
Accounts Receivable, Net and Other		3,073.8
Other Assets		123.3
Inventory and Related Property, Net		23,142.8
General PP&E, Net		893.0
Advances and Prepayments		99.7
TOTAL ASSETS	**$**	**30,301.9**
Accounts Payable	$	3,056.8
Other Liabilities		5.1
Environmental and Disposal Liabilities		323.5
Federal Employee Benefits Payables		477.3
Advances from Others and Deferred Revenue		3.5
TOTAL LIABILITIES	**$**	**3,866.2**
TOTAL NET POSITION (ASSET LESS LIABILITIES)	**$**	**26,435.7**
TOTAL LIABILITIES AND NET POSITION	**$**	**30,301.9**
Total Gross Cost	$	55,540.0
Less: Total Earned Revenue		(53,013.4)
NET COST OF OPERATIONS	**$**	**2,526.6**

Figure 6: Key Financial Measures

The Fund Balance with Treasury (FBwT) had a balance of $3.0 billion as of September 30, 2025. SCM represents $1.7 billion (56.7%), and Energy represents $1.1 billion (37.9%). The business activities contributing to these amounts include:

- Performance Based Logistics (PBL) program
- NEXTGEN and Peak programs
- Capital software investment for the Defense Logistics Information Service
- Pharmaceutical mail-order specialty drugs, Operations support for Ukraine, and FEMA
- Petroleum purchases outpacing sales

Inventory and Related Property had a balance of $23.1 billion as of September 30, 2025. SCM activities represents $17.1 billion (73.7%). Energy activities accounted for $6.1 billion (26.2%) of the total balance.

Accounts Payable (Federal and Non-Federal) had a balance of $3.1 billion as of September 30, 2025. SCM represents $2.6 billion (84.1%). DLA SCM payables are primarily due to goods and services received for Ukraine Support and Southwest Border Support. Energy had an accounts payable balance of $468.8 million (15.3%).

Federal Employee Benefits Payable had a balance of $477.3 million as of September 30, 2025. Federal Employee Salary, Leave, and Benefits Payable represent $269.4 million (56.4%); Pension and Post-Employment Benefits Payable represent $166.9 million (35.0%); and Other Liabilities - Benefit Contributions Payable represent $41.0 million (8.6%).

Imputed Financing had a balance of $342.6 million as of September 30, 2025. SCM represents $311.7 million (91.0%). Energy represents $26.2 million (7.7%). Document Services represents $4.7 million (1.3%). The imputed financing amount is primarily driven by the cost of Federal Employees Health Benefits (FEHB).

Appropriations Used had a balance of $200.0 million as of September 30, 2025, attributable to Energy activities for the Red Hill Fuel Storage Tank Facility in Oahu, Hawaii response activities.

Transfers-In/Out without Reimbursement had a transfer in balance of $462.0 million as of September 30, 2025. SCM accounted for $472.8 million (102.0%) due to inventory transferred in from DLA General Fund for Military Global Positioning System User Equipment (MGUE) components. Energy had a transfer out balance of $10.9 million (2.0%).

Appropriations Transferred In/Out had a transfer in balance of $2.3 million as of September 30, 2025. DLA Energy received $2.3 million in direct appropriation for Red Hill response activities.

Net Cost of Operations had a balance of $2.5 billion as of September 30, 2025.

- Gross costs had a balance of $55.5 billion. SCM gross costs amounted to $42.8 billion (77.1%) led by SCM Troop Support and SCM Land and Maritime, due to support operations related to Ukraine, pharmaceutical prime vendors for mail-order specialty drugs, and support efforts for Hurricane Helene. Energy gross costs amounted to $12.5 billion (22.4%).

- Earned revenue had a balance of $53.0 billion. SCM business activities accounted for $40.6 billion (76.5%) due to a high customer demand for Tailored Logistics Support Programs. These programs supply special operations equipment, as well as fire and emergency services equipment. SCM Medical also experienced high customer direct sales of mail-ordered specialty drugs under Pharmaceutical Prime and National Prime Vendor contracts. Energy had an earned revenue balance of $12.2 billion (23.0%).

Limitations of the Financial Statements

The DLA WCF principal financial statements[1] and accompanying notes are prepared to report the financial position and results of operations of DLA WCF as required by the CFO Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and 31 U.S.C. § 3515(b).

The DLA WCF is unable to fully implement all elements of U.S. Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements for Federal government entities specified by Office of Management and Budget (OMB) Circular A-136 and other authoritative guidance. This is due to financial and nonfinancial management system limitations, as well as limitations on the underlying processes that support the principal financial statements. The DLA WCF derives reported values and information for major asset and liability categories largely from nonfinancial systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of Federal appropriations rather than preparing financial statements in accordance with U.S. GAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by U.S. GAAP, and most of the financial management systems used by DLA WCF were designed to record information on a budgetary basis.

The DLA continues to address IT and financial audit NFRs to strengthen system controls and financial and regulatory compliance with corrective action plans that include developing requests for systems changes. The DLA has begun migrating to the 4th version of SAP's Data processing Enterprise Resource Planning (ERP) Business Suite 4 SAP HANA (SAP S/4HANA). Phase 1 of the two phased ERP Migration has been completed and Phase 2 is currently in process, with planned completion in FY 2026. SAP S/4 will provide enhanced reporting of financial information on the full accrual accounting basis and streamline data between IT systems, which DLA continues to consolidate and rationalize through the migration of major legacy systems.

The DLA WCF continues to develop, improve, and refine the underlying financial and nonfinancial end-to-end processes and systems that support the compilation of the financial statements and notes in accordance with U.S. GAAP as promulgated by FASAB and other Federal regulations. The DLA WCF continues to implement interim mitigation processes to address known limitations; additionally, DLA WCF is remediating material weaknesses to the financial statement preparation process. The DLA WCF has several corrective actions underway intended to improve the underlying systems, business processes and internal controls.

The financial statements should be read with the realization that they are for a component of the U.S. Government.

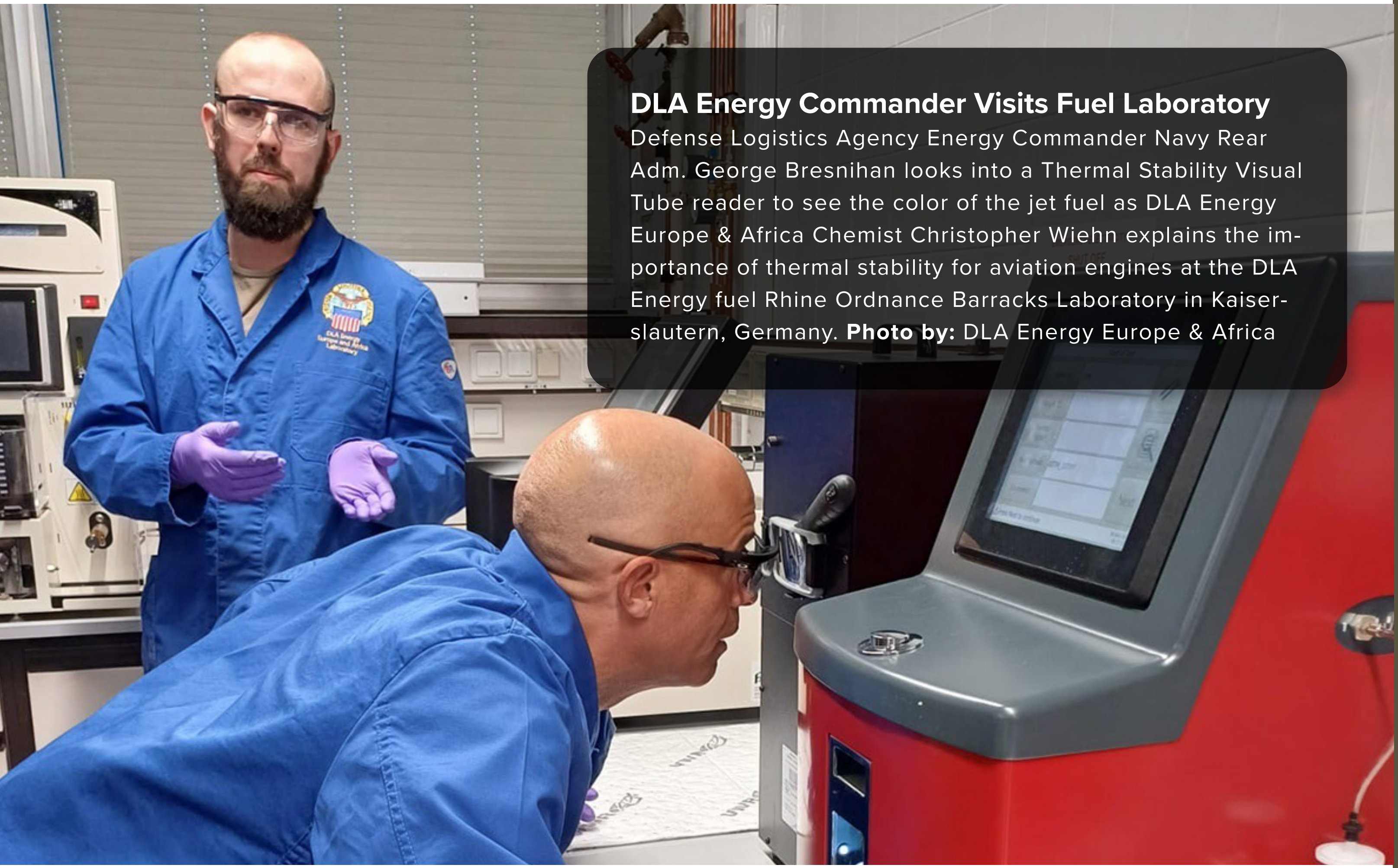
1 Refer to the Financial Section Introduction for definition of principal financial statements.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DLA management is tasked with establishing, maintaining, and assessing internal controls. Their goal is to provide reasonable assurance that the objectives outlined in OMB Circular A-123, regarding Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control, are met. They must also adhere to the requirements of the Federal Managers' Financial Integrity Act (FMFIA), documented in 31 U.S. Code 3512, Sections 2 and 4. Additionally, they must ensure compliance with the Federal Financial Management Improvement Act (FFMIA), Public Law 104-208. All these efforts must align with the standards set forth in the U.S. Government Accountability Office (GAO) Green Book, which details the Standards for Internal Control in the Federal Government.

In FY 2025, DLA's Enterprise Risk Management Program Management Office (ERM PMO) led DLA organizations in an evaluation of DLA's system of internal controls during FY 2025. This evaluation was based on guidance from the Government Accountability Office (GAO) Standards for Internal Control for the Federal Government (the Green Book) and OMB Circular No. A-123 in order to determine whether DLA system of internal control is in compliance with standards prescribed by the Comptroller General.

The DLA Management Assurances Memorandum is prepared for DLA WCF and National Defense Stockpile Transaction Fund (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 WCF AFR.



DLA Energy Commander Visits Fuel Laboratory
Defense Logistics Agency Energy Commander Navy Rear Adm. George Bresnihan looks into a Thermal Stability Visual Tube reader to see the color of the jet fuel as DLA Energy Europe & Africa Chemist Christopher Wiehn explains the importance of thermal stability for aviation engines at the DLA Energy fuel Rhine Ordnance Barracks Laboratory in Kaiserslautern, Germany. **Photo by:** DLA Energy Europe & Africa

Management Assurances

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

October 1, 2025

MEMORANDUM FOR UNDERSECRETARY OF DEFENSE(COMPTROLLER) (OUSD(C))
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 control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. 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, 2025.

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. 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, 2025.

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. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over reporting (both internal and external reporting) and compliance are operating effectively as of September 30, 2025.

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. 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, 2025.

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. 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, 2025.

DLA continues to make progress towards implementing an effective OMB A-123 Program, with significant progress made by documenting business process narratives for our end-to-end assessable units that are relevant to internal controls over financial reporting. Many of these assessable units have developed a Risk and Control Matrix workbook with key controls identified.

There is one known ADA violation for the DLA National Defense Stockpile Transaction Fund (NDSTF) (Case 23-01) identified in September 2023. OGC concluded in the Legal Advance Decision Memorandum that the information contained in the report of investigation proves by a preponderance of the evidence that DLA violated the ADA by obligating and expending funds in excess of an apportionment. Based upon the case, J8 implemented an annual internal control on October 2, 2023. DLA is currently proceeding through the disciplinary action process.

If there are any questions regarding this Statement of Assurance for FY 2025, my point of contact for this action is Mr. Erich Gabris, Chief Risk Officer. He can be reached at (571) 431-9621 or via email at Erich.Gabris@dla.mil.

MARK T. SIMERLY
LTG, USA
DLA DIRECTOR

Summary of Internal Control

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

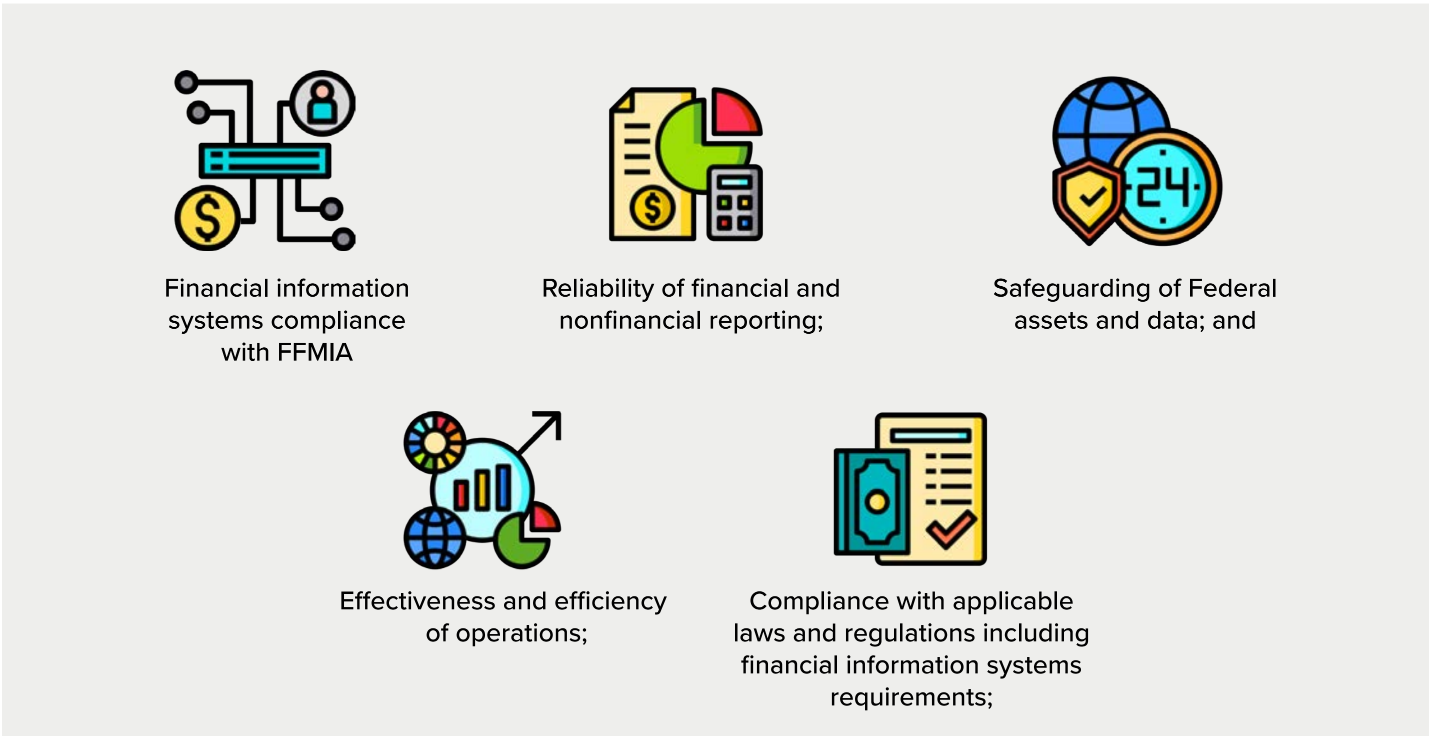


Figure 7: Summary of Internal Control

The scope of management's evaluation relates to DLA's controls over its financial reporting, financial management systems, and business operations, using instruction from the annual DoD FY 2025 SOA Execution Handbook. The SOA Execution Handbook provides current year DoD requirements to help DLA finalize a comprehensive set of submissions in accordance with OMB Circular A-123 and on how to maintain a strong internal control environment with a focus on the objective of obtaining an unmodified audit opinion.

In accordance with the Federal Managers' Financial Integrity Act (FMFIA), the objectives of DLA's system of internal control 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 system requirements;
- Safeguarding of Federal assets and data;
- Financial information systems compliance with the Federal Financial Management Improvement Act (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

Continued on next page ▶

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.

DLA considered the five (5) components and seventeen (17) principles defined by GAO to conclude its determination of statement of no assurance. Based on the standards, DLA Organizations identified deficiencies and gaps in each of the five (5) standards of internal control:

- **Control Environment:** DLA continues to work on building a robust Control Environment with adequately documented policies and procedures to help ensure DLA's Control Activities are designed, implemented, and operating effectively.

- **Risk Assessment:** DLA continues to evaluate the risks, including fraud risks, facing the entity as it seeks to achieve its objectives and provides the basis for developing appropriate risk responses.

- **Control Activities:** The DLA continued initiatives aligned with Secretary of War directives to document ten end-to-end business process narratives (BPNs) that adequately explain existing processes, including controls, and test the related system and business process design and execution controls. The DLA implemented a framework correlating key controls from DoD-wide BPNs with DLA specific processes, facilitating stakeholder identification and ongoing status monitoring of key controls.

- **Information and Communication:** The DLA continues to work on improving data quality and the reliability of external communication and DLA's audited financial statements. Additionally, 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, in coordination with all stakeholders, continue to revise 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.

In FY 2025, DLA Organizations conducted a self-evaluation of their internal control environment. In that self-evaluation, 10 of 13 DLA Organizations reported their internal control environments continue to need improvements. Though DLA has made improvements in the identification and self-assessment of internal

DLA Distribution Tobyhanna Upgrades Warfighter Support Capabilities
DLA leadership begin renovations on one of its warehouses located on Tobyhanna Army Depot. Army Lt. Col. Allen Luna, commander, DLA Distribution Tobyhanna, Pennsylvania, Bradley Kearney, deputy commander, and Steavon Allen, wholesale director, commemorated the event by taking ceremonial sledgehammer swings at a wall within the warehouse. **Photo by:** Jon Satriano

controls, particularly those related to financial reporting in end-to-end business processes, there remains significant deficiencies in some of the major processes.

Taken together, the consolidation of DLA Organization's Internal Control self-evaluations and a holistic assessment of DLA-wide, DLA is unable to provide reasonable assurance over its system of internal control, primarily based on the factors described above.

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 determine DLA's current level of compliance with FFMIA and the additional actions necessary to reach full compliance. The Agency identified that there exist high-risk factors associated with all three FFMIA Section 803(a) requirements. The risks are described as follows:

FFMSRs:

High-risk factors include: the disclaimer of opinion on the FY 2025 financial statements; and material weaknesses reported in FY 2025 in areas that corresponded to FFMSRs.

Federal Accounting Standards[2]:

High-risk factors include: the disclaimer of opinion on the FY 2025 financial statements and material weaknesses reported in FY 2025 in areas that related to compliance with Federal accounting standards.

USSGL at the Transaction Level:

High-risk factors include: the disclaimer of opinion on the FY 2025 financial statements and material weaknesses reported in FY 2025 in areas that related to implementation of the USSGL at the transaction level.

The DLA is actively engaged in several initiatives to bring its financial management systems into compliance with Federal standards. The agency is currently in the design, build and test phase of transitioning its core financial management system, EBS SAP ECC 6.0, to EBS SAP S/4HANA within SAP's Secure HANA Cloud platform.

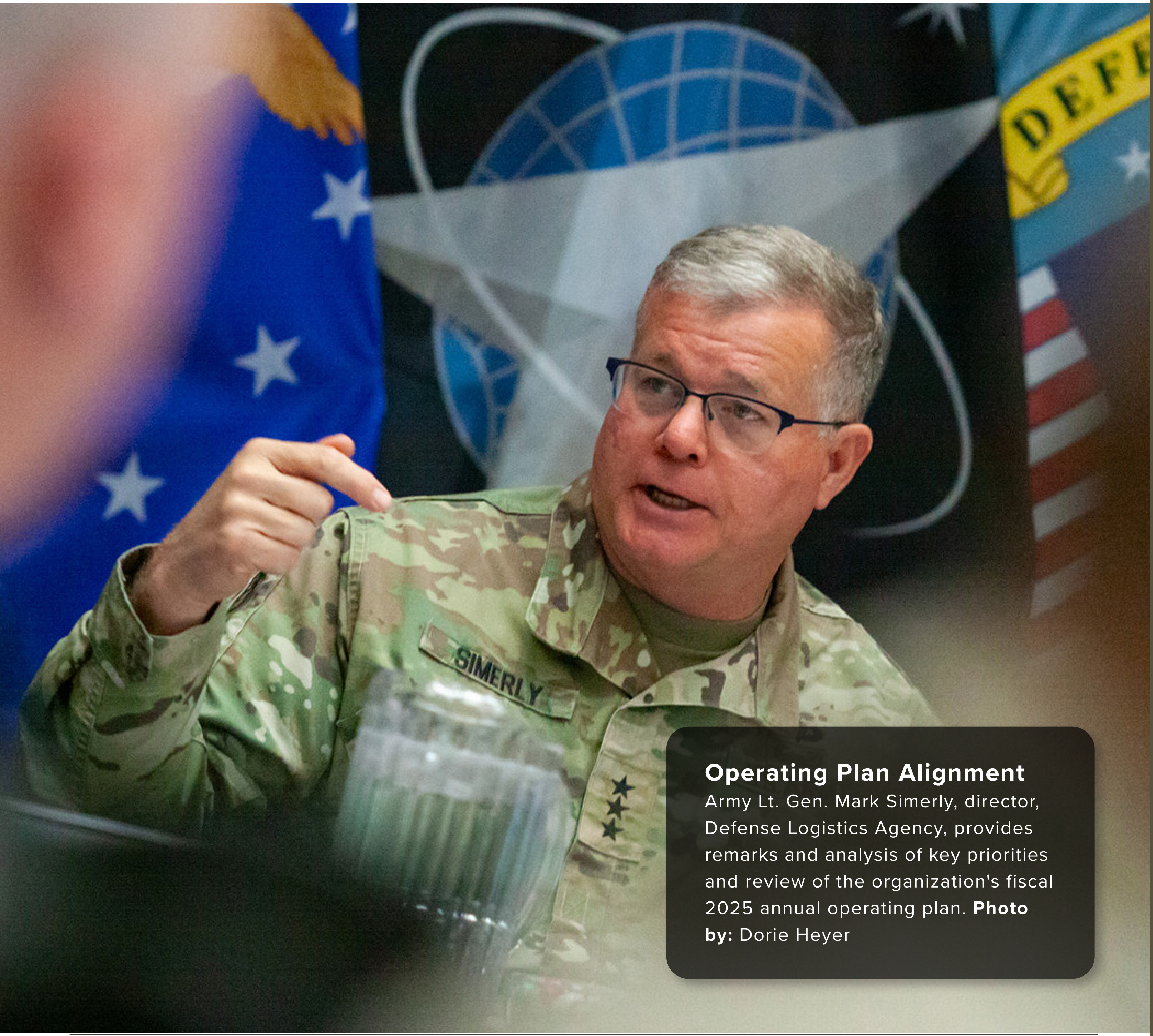
The agency is currently engaged in data validation, security role and user acceptance testing (UAT), which are crucial steps for ensuring the quality and functionality within the new system these efforts include several business transformation and process reengineering steps. The current plan is to "Go Live" in February 2026, with Finance (J8) and Information Operations (J6) leading the effort. The Business Transformation Study (BTS) completed in FY 2022 identified reengi-

2 Refer to the Notes to the Principal Financial Statements; Note 1.C, *Departures from U.S. GAAP.*

neering opportunities to streamline processes, reduce customization, and enhance standardization.

The DLA is also implementing system changes to comply with the US Treasury's G-invoicing requirements. This system solution is scheduled for a phased deployment through FY 2027. These initiatives reflect DLA's commitment to modernizing its financial systems and optimizing operational effectiveness through advanced technology and process improvements.

For FY 2025, the following table (Figure 8) 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.



Operating Plan Alignment
Army Lt. Gen. Mark Simerly, director, Defense Logistics Agency, provides remarks and analysis of key priorities and review of the organization's fiscal 2025 annual operating plan. **Photo by:** Dorie Heyer

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 2026 - FY 2028	• Finance • Information Operations • Acquisition • Logistics Operations
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 2026 - FY 2028	• Finance • Information Operations • Acquisition • Logistics Operations
USSGL at the Transaction Level	To reduce the material risks of procedural and posting 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 and procedures and internal controls, as well as requesting the implementation of system changes to address underlying errors in the systemic posting logic.	FY 2026 - FY 2028	• Finance • Information Operations • Acquisition • Logistics Operations

Figure 8: Summary Status of Unresolved FFMIA Section 803(a) Requirements and Remediation Activities

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. At this time, there are no known ADA violations for DLA WCF.

DLA is continuing to refine and evaluate existing controls, around processes relevant to the ADA, to identify areas of improvement.

Digital Accountability and Transparency Act of 2014

The Digital Accountability and Transparency Act of 2014 (DATA Act) enhances Federal spending transparency by making expenditure data publicly accessible on USASpending.gov. The Act mandates government-wide data standards for Federal reporting, enabling effective tracking of spending.

While the Department of Defense (DoD) is responsible for the overall DATA Act reporting, DLA plays a crucial role in ensuring the accuracy and completeness of the data DLA provides to DoD. The DLA adheres to the DoD's Data Quality Plan (DQP), and during FY 2025, DLA continued implementation of its Enterprise Data Management Data Quality Plan. This plan defines standards, requirements, and specifications for data quality controls within its Enterprise Business System (EBS) across the data lifecycle. The DLA conducts quarterly evaluations of financial and award transactions from the general ledger, assessing adherence to DoD-defined data standards, ensuring that the information DLA provides to DoD is reliable and accurate. Through these efforts, DLA is committed to supporting DoD's DATA Act compliance.

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 Act 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. The DLA receives a Payment Recapture Recovery Report from DFAS on a quarterly 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 2025, 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 when payments are made late, and to take discounts only when payments are made by the discount date.

The DLA does comply with the reporting and processing of payments in accordance with the Prompt Pay Act. The 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. The DLA receives a Monthly Interest Penalty and Improper Payments Report from DFAS and performs an oversight review of these reports.

Government Charge Card Abuse Prevention Act of 2012

The Charge Card Abuse Prevention Act (Charge Card Act) mandates agencies to implement safeguards and internal controls for purchase cards, travel cards, in-

Continued on next page ▶

tegrated cards, and centrally billed accounts. Furthermore, the Charge Card Act requires reporting of purchase card violations and periodic risk assessments by the Inspector General. The DLA is unable to provide assurance over compliance with the Charge Card Act and employs multiple processes to detect fraudulent purchases using the DoD-mandated Insight on Demand (IOD) system for analyzing high-risk transactions.

The DLA has established processes for transaction and compliance reviews by Approving/Billing Officials (A/BOs), Agency/Organization Program Coordinators (A/OPCs), and Component Program Managers (CPMs), with audits conducted by MSC teams. Transactions are reviewed daily, monthly, semi-annually, and annually, with corrective actions such as account suspensions, counseling, re-training, and increased oversight.

Management reviews and approves all purchase requests for adequacy and completeness before transactions are made. A/BOs approve payments and review all cardholder purchases, while A/OPCs conduct monthly transaction reviews, enforce corrective actions, and report results to CPMs. A/OPCs ensure compliance through daily reviews of flagged IOD cases and semi-annual reports, and CPMs conduct annual comprehensive program reviews.

In FY 2025, no instances of fraud were identified.

Unloading
A Chinook of the 310th General Support Aviation Battalion, 10th Combat Aviation Brigade, 10th Mountain Division prepares to land at Naval Supply Activity Mechanicsburg, Penn. and unload excess property from The U.S. Army 10th Aviation Division’s 6th Squadron, 6th Cavalry Regiment out of Fort Drum, New York. **Photo by:** Dorie Heyer

FY 25

AGENCY FINANCIAL REPORT

WORKING CAPITAL FUND

SECTION 2

FINANCIAL SECTION (UNAUDITED)

SECTION 2

Financial Section (Unaudited)

In this section:

Knife Race

Navy Lt. Michael Monson and Petty Officer 2nd Class Alex Pacheco run on a trail during the 2024 "Knife Race" at Naval Air Station Whidbey Island, Wash. The race tested the participants' aircrew survival skills. **Photo by:** Navy Petty Officer 2nd Class Jacquelin Frost

AUDIT REPORTS

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

November 21, 2025

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Logistics Agency Working Capital Fund Financial Statements and Related Notes for FY 2025
(Project No. D2025-D000FE-0066.000, Report No. DODIG-2026-023)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Defense Logistics Agency (DLA) Working Capital Fund (WCF) Financial Statements and related notes as of and for the fiscal year ended September 30, 2025. 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's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract 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 2025, Volume 2, June 2024, and Volume 3, August 2025. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DLA WCF Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DLA WCF FY 2025 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements

Performed in Accordance with Government Auditing Standards" discusses seven material weaknesses related to the DLA's internal controls over financial reporting.*

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with Government Auditing Standards," discusses two instances of noncompliance with provisions of laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DLA did not comply with 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 WCF FY 2025 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DLA'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 in which EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 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

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

Attachments:
As stated

* 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.

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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

Disclaimer of Opinion

We were engaged to audit the financial statements of the Working Capital Fund of the Defense Logistics Agency (DLA), which comprise the balance sheet as of September 30, 2025, and the related statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements").

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

Basis for Disclaimer of Opinion

DLA continues to have unresolved accounting issues and material weaknesses in internal controls that cause DLA to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up DLA's financial statements as of and for the year ended September 30, 2025.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, DLA has not implemented certain accounting standards for the federal government. The effect of these matters on DLA's financial statements as of and for the year ended September 30, 2025 is not currently determinable by DLA and could be material.

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Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of DLA's financial statements in accordance with auditing standards generally accepted in the United States of America, 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 Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report. We do not express an opinion or provide any assurance on the information.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 21, 2025, on our consideration of DLA'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 DLA'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 DLA's internal control over financial reporting and compliance.

Ernst + Young LLP

November 21, 2025

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Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the 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 were engaged to audit, 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 Working Capital Fund of the Defense Logistics Agency (DLA), which comprise the balance sheet as of September 30, 2025, and the related statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”), and our report dated November 21, 2025 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section regarding DLA not having implemented certain accounting standards for the federal government. The effect of these matters on DLA’s financial statements as of and for the year ended September 30, 2025 is not currently determinable by DLA and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered DLA’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’s internal control. Accordingly, we do not express an opinion on the effectiveness of DLA’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 (FMFIA), such as those controls relevant to preparing performance information and ensuring efficient operations.

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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 Appendix A, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 as items I through VII 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 as items I and II to be significant deficiencies.

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 items held by DLA for resale. DLA also holds inventory items on behalf of the military services. DLA did not have adequate policies, procedures and internal controls surrounding documentation of procurements, shipments, and other movements, tracking of inventory by owner, validating the perpetual inventory systems by performing periodic physical counts, accumulating cost of inventory and supporting inventory balances and transactions. 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. Fund Balance with Treasury (FBwT) – FBwT represents the aggregate amount of funds in DLA's account with U.S. Treasury. DLA was unable to reconcile the FBwT ending balances from the general ledger to the U.S. Treasury. Furthermore, DLA was unable to provide detailed listings of collections and disbursements that reconcile to the general ledger. DLA, in conjunction with Defense Finance and Accounting Service (DFAS), has implemented the

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Cash Management Reconciliation (CMR) process and the Office of the Under Secretary of Defense (Comptroller) (OUSD (C))'s Advancing Analytics (ADVANA) platform as mechanisms to reconcile DLA's general ledger to U.S. Treasury. However, these processes are unable to support reconciling items at the transaction level. In addition, DLA did not have adequate policies, procedures and internal controls in place for the end-to-end FBwT process. The combination of these deficiencies in aggregate results in a material weakness in internal control related to FBwT. The matters identified related to FBwT are further described in Appendix A.

III. Accounts Receivable (AR) and Revenue – AR consists of amounts owed to DLA primarily related to the resale of goods and the provision of services. Revenue is earned when DLA sells goods and services to the public or other federal entities. DLA was unable to support the balances recorded as AR and validate the significant balance of aged receivables and unfilled customer orders. In addition, DLA did not have procedures to estimate valuation allowances against receivables and was unable to support the transactions recorded. Furthermore, DLA did not have adequate policies, procedures and controls to record AR and revenue transactions accurately and in the proper period in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The combination of these deficiencies in aggregate results in a material weakness in internal control related to AR and revenue. The matters identified related to AR and revenue are further described in Appendix A.

IV. Accounts Payable (AP) and Expense – AP represents the amount owed to third parties by DLA for goods and services received. Expenses are incurred and recognized when DLA receives goods and services from the public or other federal entities. DLA was unable to support the AP balance, expenses and related budgetary balances. In addition, DLA did not have policies, procedures and internal controls for the procure to pay process, including the process to create and approve obligations and the process to review, record and pay invoices. Furthermore, DLA lacked adequate procedures to record obligations and accrue for liabilities incurred but not paid, to review and close invalid obligations, and to record transactions in the procure to pay process in the correct periods. 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.

V. Financial Reporting – Financial reporting encompasses all aspects of operations affecting DLA's ability to produce reliable financial statements and disclosures in accordance with U.S. GAAP. DLA lacked policies and procedures to effectively implement accounting standards set forth by the Federal Accounting Standards Advisory Board (FASAB) in a timely manner. DLA's financial statement preparation process lacked sufficient controls to review and identify inaccurate balances within the financial statements and incomplete and

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inaccurate footnote disclosures. DLA lacked policies and procedures to validate account balances and monitor reporting variances between source systems, resulting in DLA recording unsupported journal vouchers (JVs) to correct the variances. In addition, DLA did not have controls to review and approve transactions recorded with elevated access privileges. Furthermore, DLA was unable to provide detailed listings for budgetary accounts that reconcile to the general ledger. 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.

VI. Oversight and Monitoring – Oversight and monitoring relate to DLA'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 and Internal Control*. DLA did not have an effective OMB Circular A-123 program, which impacted DLA's ability to appropriately identify and address significant risks for all key business processes. DLA did not implement appropriate internal controls, including the documentation of policies and procedures that describe DLA's environment related to end-to-end business processes, monitoring of service providers, related parties, systems, risks, controls and remediation of audit findings. In addition, DLA did not perform 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.

VII. Information Systems – Our assessment of DLA'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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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. Property, Plant and Equipment (PP&E) – PP&E includes general equipment, internal use software and construction-in-progress. DLA did not complete an analysis of the existence and completeness of PP&E assets or its process to value PP&E beginning balances and had weaknesses in the processes of maintaining and reconciling PP&E records. The matters identified related to PP&E 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 manages. Within DLA's process to estimate ELs, DLA did not perform a sufficient review of data/reports used in the execution of key controls. The matters identified related to ELs are further described in Appendix B.

DLA's Response to Findings

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2025 on our tests of DLA'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's compliance.

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November 21, 2025

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Appendix A – Material Weaknesses

I. Inventory

DLA's inventory is comprised of petroleum and aerospace products, weapon system repair parts, food, clothing and medical supplies. Inventory also includes material from the military services designated for disposal or reutilization. In accordance with FMFIA, management is responsible for establishing effective controls over and accountability for all assets for which the agency is responsible. DLA's controls and processes do not exist or were not operating in several significant areas, specifically:

A. **Lack of or Inadequate Documentation of Inventory Accounting Policies, Procedures and Controls.** DLA did not document the processes related to the significant business activities for acquisition, movement, warehousing and disposition of inventory; the related risks for each business activity; and the control activities designed to mitigate risks of material misstatement in the financial statements. The documentation lacked an accurate description of the following: financial reporting, records management, physical count policies, accounting for third-party managed inventory, the Inventory Reconciliation Framework (IRF) and various other business processes.

B. **Lack of or Inadequate Documentation to Substantiate Inventory and Inventory-Related Transactions.** DLA was unable to provide documentation that inventory balances exist, or inventory transactions occurred and were accurately recorded in the financial statements. Specifically, documentation was not available to support:

- The completeness and accuracy of transactions recorded or the existence of balances in the general ledger and the accountable property system of record (APSR).

- Shipping terms for sales transactions to evidence when the title and risk of loss are transferred to the buyer.

- Balances recorded in the inventory detail reports from the financial reporting system that do not reconcile to the site-specific end-of-month reports and component financial statements.

- Balances of fuel inventory held in pipelines or in-transit.

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- Posting of transactions in the general ledger resulting from financial events (i.e., sales, purchases, gains and losses, including gains and losses resulting from physical inventory counts).

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

- **Inadequately Designed Controls Over Inventory Processes.** For controls that have been implemented over significant Energy and Distribution processes, the controls were not designed to align with DLA policies or were not executed consistently. In addition, sufficient documentation did not exist to evidence the performance of the control activities.

- **Inventory Held for Others.** Inventory held on behalf of the military services was not always stored in physically segregated locations and instead, was commingled with similar inventory that could be owned by multiple owners. DLA lacked controls over the commingled inventory. DLA did not have policies and procedures to reconcile quantities of inventory by owner to the total physical inventory counts on a regular basis or to account for inventory variances resulting from physical inventory counts for segregated inventory items with multiple owners. As a result, gain/loss adjustments were not assigned to the appropriate owner.

- **In-Transit and Pipeline Inventory (In-Transit).** In-transit inventory relates to items that are accepted at the point of origin (free on board shipping point) and are in-transit to a DLA destination. Controls related to monitoring and reconciling in-transit inventory balances did not exist. As a result, inventory recorded as in-transit from procurement points of origin remained in-transit for more than one fiscal year.

- **Energy Inventory.** DLA policy requires that monthly or quarterly automated tank gauging (ATG) verifications be performed. In addition, DLA requires that manual readings of fuel tank levels be obtained by calibrated tape or a calibrated rod in the absence of functional ATG systems. DLA performs monthly samples of ATG tanks to monitor compliance with DLA Energy policies; however, DLA lacked controls to assess the completeness and accuracy of data used in the execution of the controls over the annual tank data call and monthly samples of ATG verifications. In addition, DLA did not sufficiently document review procedures performed over the monthly sample.

- **Posting Inventory Adjustments in the General Ledger.** DLA policy requires that errors between the APSR and the general ledger be reviewed and corrected by assigned users. Adjustments to correct the errors above a certain dollar threshold are reviewed by a

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supervisor; however, DLA did not have controls in place to prevent users from posting adjustments above the threshold or to detect that adjustments posted above the threshold were not reviewed.

- **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.

D. **Inadequate Policies, Procedures and Related Controls Over Physical Inventory Counts**. The Department of Defense Financial Management Regulation (DoD FMR) requires that all inventory be counted at least annually, either in a full physical count or through cycle counts, to validate perpetual inventory accuracy. DLA did not adequately design controls related to physical counts of inventory related to Supply or Disposition Services as required.

- **Inventory**. DLA policy requires an annual physical count of all items on hand as of the beginning balance sheet date. DLA was not in compliance with this policy or the DoD FMR. Additionally, the policies and procedures over inventory counts were not designed to adequately demonstrate that inventory counts are complete and accurate.

E. **Lack of Controls for the Reconciliation Between Inventory APSRs and the General Ledger.** DLA utilizes the IRF to reconcile the inventory quantity balance in the general ledger to the inventory quantity balance in the APSRs; however, the IRF was not performed completely, accurately or timely. For example:

- The inventory reconciliations were not completed on a timely basis or within the normal financial statement close period (approximately 40-45 days from month-end).

- There were significant unreconciled variances in the reconciliation.

- The IRF did not include all appropriate general ledger accounts, including inventory in-transit between storage locations and inventories/stock on hand.

F. **Lack of Policies, Procedures and Controls over Inventory Held by Third Parties.** DLA lacked or did not have adequate policies, procedures and controls over the following:

- **Inadequately Designed Controls Over Inventory Processes.** Controls that have been implemented over inventory held by vendors were not designed effectively or executed consistently. For example, annual inventory count requirements were not established for all vendors.

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- **Reconciliation of Inventory.** DLA was unable to provide a complete listing of vendors who hold DLA owned inventory. In addition, the controls to reconcile balances recorded in the inventory detail reports to the financial statements were not executed consistently.

- **Transactions Recorded in the Appropriate Period.** DLA did not have policies and procedures in place to record transactions which were initiated at third party locations in the period that the transaction occurred or to accrue for transactions that occurred but were not posted at period-end.

G. **Lack of Policies**, **Procedures and Controls to Effectively Implement Accounting Standards.** DLA did not have policies, procedures and controls to effectively implement accounting standards, causing an inaccurate presentation of inventory on the balance sheet and in the related footnote disclosure. Specifically, DLA neither implemented nor applied the costing and valuation methodologies set forth by Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property* and SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials.* For example:

- DLA values inventory using the moving average price (MAP). However, DLA was unable to provide supporting documentation of costs that are included or excluded to calculate the MAP.

- DLA began implementing inventory costing methodologies in accordance with SFFAS No. 48 in fiscal year (FY) 2016; however, DLA did not completely and accurately value inventory in accordance with SFFAS No. 48. For example, the values assigned for certain inventory items were based on the latest acquisition cost (LAC). The LAC values did not properly consider inventory acquired through the implementation date.

- DLA assigned zero-dollar values to unique material numbers and was not able to provide the basis for the zero-dollar valuation for all materials.

- Work in process (WIP) inventory items or components are provided to a production facility for kitting, assembly or modification, or to make an end item. Policies and procedures were not in place to record all costs, such as the assembly and labor costs, incurred during the kitting, assembly or modification process.

- Valuation allowances for various inventory items, including excess, obsolete and unserviceable (EOU) inventory, inventory held for repair, inventory held at net realizable value, etc., were not appropriately documented or supported. The documentation for the

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valuation allowance for inventory held for repair did not sufficiently describe the methodology used to estimate the allowance or describe the rationale for adopting the methodology being used and the factors used in the estimation process.

H. **Inadequate or Lack of Controls Over Financial Reporting of Inventory.** DLA lacked controls to classify and present inventory appropriately in the financial statements. DLA accounting policy states that inventory balances are based on the following categories: inventory held for current sale, inventory held for future sale, EOU and inventory held for repair. DLA uses the inventory condition codes as the basis to classify inventory between each category. Controls were not in place to assign inventory the appropriate condition codes. In addition, DLA was unable to determine whether inventory classified as EOU meets the definition in SFFAS No. 3. As a result, DLA was unable to substantiate the amounts classified, presented or disclosed.

Recommendations

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

A. **Lack of or Inadequate Documentation of Inventory Accounting Policies, Procedures and Controls.** Document, update and finalize the process cycle memoranda (PCM) that document the end-to-end processes for inventory, including receiving, distributing, recording, processing and reporting. Perform a risk analysis and document risks associated with the DLA inventory business process. Review current control documentation and perform a gap analysis for internal controls at the financial statement assertion level.

B. **Lack of or Inadequate Documentation to Substantiate Inventory and Inventory-Related Transactions.**

- Develop and maintain documentation to support that inventory balances exist and that inventory transactions occurred and are accurately recorded in the financial statements, including:

  - Standardizing data elements included in data extracts from APSRs and the general ledger. For example, data elements to tie material movements to the related financial postings.

  - Standardizing documentation requirements to support financial events.

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

- **Inadequately Designed Controls Over Inventory Processes.** Design and implement internal control activities and include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls and retain sufficient documentation to evidence the execution of the control activities. The control activities should align to and be executed consistently with DLA policies.

- **Inventory Held for Others.** Develop policies and procedures related to inventory held for others to include the following:

    - Properly identifying the inventory owner of the material, as appropriate, such as identifying the owner on material labels upon receipt or segregating the inventory by owner.

    - Accounting for inventory variances for segregated inventory items with multiple owners so that inventory gains/losses for inventory held on behalf of others are assigned to the appropriate owner.

- **In-Transit and Pipeline Inventory.** Develop and implement policies and procedures to properly monitor and reconcile in-transit and pipeline inventory and to validate that balances are complete and accurate.

- **Energy Inventory.** Design policies, procedures and controls to verify the data used in annual and monthly ATG verification samples are complete and accurate.

- **Posting Inventory Adjustments in the General Ledger.** Design application-level controls that prevent users from posting transactions above their approved thresholds. Further, DLA's inventory process should include procedures to review transactions posted to verify that unauthorized transactions were not posted.

- **Inventory Recorded in the Appropriate Period.** Design policies, procedures and controls to process and post transactions to the correct period in the general ledger and to record an accrual at period-end for transactions that should be posted but have not been resolved to reflect recording in the proper period.

D. **Inadequate Policies, Procedures and Related Controls Over Physical Inventory Counts.** Design and implement policies, procedures and controls over inventory physical counts. The inventory counts for Supply and Disposition Services should include a requirement whereby

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quantities in the perpetual inventory system are supported via physical counts at least once a year, either through a wall-to-wall, year-end count or adequately designed cycle counts in compliance with the DoD FMR.

E. **Lack of Controls for the Reconciliation Between Inventory APSRs and the General Ledger.** Design policies and procedures to perform the IRF completely, accurately and timely. The policies should consider the following:

- Reconciling or resolving variances timely, including establishing thresholds for variances that require a review to be performed.

- Including all inventory general ledger accounting codes in the IRF.

F. **Lack of Policies, Procedures, and Controls over Inventory Held by Third Parties.**

- **Inadequately Designed Controls Over Inventory Processes.** Design and implement control activities for all vendors and monitor that the control activities are executed consistently with DLA policies.

- **Reconciliation of Inventory.** Generate a comprehensive listing of vendors that hold DLA owned inventory and reconcile the balances recorded in the inventory detail reports to the general ledger.

- **Transactions Recorded in the Appropriate Period.** Design policies, procedures and controls to process and post transactions initiated at third party locations to the correct period in the general ledger and to record an accrual at period-end for transactions that should have been posted but have not been resolved to reflect recording in the proper period.

G. **Lack of Policies**, **Procedures and Controls to Effectively Implement Accounting Standards.** Design policies and procedures to implement the appropriate accounting standards, specifically SFFAS No. 3 and SFFAS No. 48. The policies and procedures should include:

- Substantiating that the inputs to the MAP calculation include or exclude costs as appropriate.

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- Establishing opening inventory balances by valuing inventory using the deemed cost valuation methodologies in accordance with SFFAS No. 48 and verifying that inventory valuation complies with SFFAS No. 3 subsequent to the implementation of SFFAS No. 48.

- Assigning a proper value and unit of measure at the time of receipt.

- Tracking and recording all costs incurred during the kitting or assembly process to the WIP inventory.

- Documenting the methodology, rationale and processes used to estimate valuation allowances for items, including EOU inventory, inventory held for repair, inventory held at net realizable value, etc.

H. **Inadequate or Lack of Controls Over Financial Reporting of Inventory.** Design and implement controls to assign inventory items to the appropriate condition code, including controls over EOU inventory classification in accordance with SFFAS No. 3.

II. Fund Balance with Treasury

Fund Balance with Treasury (FBwT) represents the aggregate amount of funds in DLA's account with U.S. Treasury. Treasury's Financial Manual (TFM) Chapter 5100, Section 5125 requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations. However, deficiencies existed related to DLA's processes of recording and reconciling transactions involving FBwT.

A. **Lack of or Inadequate Documentation of FBwT Accounting Policies**, **Procedures and Controls.** DLA did not document the end-to-end process to account for, monitor and report FBwT and FBwT-related transactions.

- **Suspense and Statement of Differences.** DLA did not document the process to correctly identify and resolve suspense and Statement of Differences amounts.

- **Reconciling Items to Treasury.** DLA did not document the processes to correct and review Defense Automatic Addressing System (DAAS) rejects; research and resolve differences between U.S. Treasury, disbursing system records, and accounting system records within a timely basis.

B. **Inappropriate Policies and Procedures for Recording Cash Collections.** DLA did not have an appropriate process to record cash collections upon receipt. Interfund transactions are not

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processed by U.S. Treasury until month-end reporting; however, DLA records the cash collection transaction in the general ledger prior to when the transactions occur, resulting in a misstatement of FBwT.

C. **Lack of Controls for the Reconciliation of FBwT Between the General Ledger and U.S. Treasury.** DLA, in conjunction with DFAS, has implemented the CMR and ADVANA processes as mechanisms to reconcile the general ledger to U.S. Treasury. However, the CMR and ADVANA processes were not sufficient to produce a complete and accurate reconciliation of DLA's general ledger to U.S. Treasury. As a result, DLA was unable to accurately reconcile to U.S. Treasury.

D. **Lack of or Inadequate Documentation to Substantiate FBwT.** DLA was unable to provide listings of collection and disbursement transactions at the detailed voucher level that reconcile to the general ledger. As such, the FBwT transactions are not appropriately supported.

Recommendations

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

A. **Lack of or Inadequate Documentation of FBwT Accounting Policies**, **Procedures and Controls.** As part of the end-to-end process for FBwT, document the process to perform regular and recurring reconciliations of the suspense and Statement of Differences account data; the process to identify and correct DAAS rejects timely; and the process to research and resolve differences between U.S. Treasury, disbursing system records and accounting system records on a timely basis.

B. **Inappropriate Policies and Procedures for Recording Cash Collections.** Design and implement policies and procedures to properly record a debit to FBwT and a credit to accounts receivable (AR) when the cash transaction has occurred, and cash has been received at U.S. Treasury.

C. **Lack of Controls for the Reconciliation of FBwT Between the General Ledger and U.S. Treasury.** Develop and implement procedures to reconcile the transactions recorded in the general ledger to the transactions reported by U.S. Treasury in order to verify that the data was processed correctly.

D. **Lack of or Inadequate Documentation to Substantiate FBwT.** Develop and implement procedures to generate complete and accurate listings of FBwT collections and disbursement transactions at the detailed voucher level that reconcile to the general ledger.

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III. Accounts Receivable and Revenue

Accounts receivable (AR) consist of amounts owed to DLA. Revenue is earned when DLA sells goods and services to the public or other federal entities. AR and revenue fall within the scope of DLA's order to cash process. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that provide reasonable assurance that revenues applicable to the agency's operations are properly recorded and accounted for to permit the preparation of reliable financial reports and maintain accountability of assets. Because of the nature of DLA's services, DLA has a significant volume of transactions in the order to cash process. This balance represents a substantial portion of its activity that involves receipt of funds by DLA in order to provide inventory to its ultimate consumers. The volume of these transactions makes it critical for DLA to properly record and reconcile these transactions to ensure timely, appropriate recognition of costs to the end users. However, DLA was unable to support the existence of accounts receivable and unfilled customer orders and the occurrence of revenue transactions.

A. **Lack of or Inadequate Documentation of AR and Revenue Accounting Policies, Procedures and Controls.** DLA did not document the end-to-end process to account for Unfilled Customer Orders (UCO), revenue and AR transactions.

- **UCOs.** The documentation did not include the process to identify, research and resolve unreconciled amounts for UCOs and the process to review the validity of significantly aged UCOs in the general ledger.

- **AR.** The documentation did not include the process to evaluate the collectability and validity of significantly aged AR (receivables include a significant amount of aged receivables (greater than 180 days)); the process to review, reconcile or clear negative accounts receivable balances in a periodic and consistent manner; and the process to account for, calculate and post the allowance for doubtful accounts.

- **Non-Monetary Exchange Transactions**. The documentation did not include the process to account for non-monetary exchange transactions.

- **Offsetting Transactions.** The documentation did not include the process and controls to analyze AR and AP transactions to determine proper offsetting, recording and presentation in accordance with the customer or vendor agreement. Additionally, the documentation did not include processes to account for the related budgetary accounts.

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B. **Lack of or Inadequate Controls Over AR, Revenue and Cash Collection Processes.** DLA lacked or did not have adequate controls over the following:

- **AR and Cash Collections.** DLA lacked controls to substantiate the validity of AR balances, including the use of a single account for multiple customers and to apply collections from customers accurately and timely. As a result, invalid AR transactions were recorded in the financial statements.

- **Intragovernmental Transactions.** Intragovernmental transactions, including Military Interdepartmental Purchase Requests (MIPRs), are sales orders received from other federal agencies. DLA lacked controls to prevent services from being performed beyond the terms of the agreement and to prevent duplicate transactions from being recorded in the general ledger. As a result, duplicate sales orders were recorded in the general ledger. In addition, there were instances where revenue recorded, in aggregate, exceeded the total funding amount, or the services were performed outside the period of performance.

- **Revenue Recorded Accurately and in the Appropriate Period.** DLA lacked controls to review pricing updates and record revenue transactions appropriately and accurately in the period that the transaction occurred. As a result, a significant number of transactions were not posted using the correct price or were not recorded in the proper accounting period. In addition, the controls to validate that the accruals are recorded at the appropriate amount and in the correct period were not designed effectively.

- **Fuel Exchange Agreements.** DLA did not have adequately designed controls around the fuel exchange agreement (FEA) process. For example, DLA did not reconcile the amounts receivable from, or payable to, foreign governments. In addition, sufficient documentation did not exist to evidence the performance of the control activities. As such, DLA was unable to demonstrate that controls were operating effectively.

- **Manually Recorded Collections.** DLA lacked sufficient oversight and monitoring controls over manual cash collections recorded by DFAS.

C. **Lack of or Inadequate Documentation to Substantiate AR and Revenue Transactions.** DLA was unable to provide documentation that AR and UCO balances exist, or that revenue transactions occurred and are accurately recorded in the financial statements. Specifically, documentation was not available to support that:

- The AR balances (federal and with the public), UCO and deferred revenue transactions are complete and accurate, and reconcile to the general ledger and that the balances exist.

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- The revenue transactions recorded are complete and accurate and have occurred.

D. **Lack of Policies**, **Procedures and Controls to Effectively Implement Accounting Standards.** DLA did not have policies, procedures and controls to effectively implement accounting standards. Specifically, DLA neither implemented nor applied the accounting set forth by SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. DLA performs services for other federal agencies without funding and records receivables from these transactions. DLA was unable to support revenue recognized from unfunded agreements, nor was an analysis performed on the collectability of the receivable related to those agreements.

Recommendations

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

A. **Lack of or Inadequate Documentation of AR and Revenue Accounting Policies, Procedures and Controls.** Document, update and finalize the PCMs that document the end-to-end processes for AR and revenue.

- **UCOs.** Document the process to reconcile UCOs between the general ledger and sales legacy module completely, accurately and timely, to review the aged UCO balances for validity.

- **AR.** Document the process to evaluate the collectability and validity of significantly aged AR (AR includes a significant amount of aged receivables (greater than 180 days)); the process to review, reconcile or clear negative AR balances in a periodic and consistent manner; and the process to account for calculating and posting the allowance for doubtful accounts.

- **Non-Monetary Exchange Transactions.** The documentation should include the accounting and financial reporting requirements for non-monetary exchange transactions.

- **Offsetting Transactions.** Document the process and controls implemented to analyze customer and vendor agreements to determine proper offsetting, recording, and presentation of AR and AP transactions and the accounting for the related budgetary accounts.

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B. **Lack of or Inadequate Controls Over AR, Revenue and Cash Collection Processes.**

- **AR and Cash Collections.** Design and implement controls to assess the existence and completeness of the receivable balances, including significantly aged receivables; controls to limit transactions in a customer account to a single customer, rather than a group of customers; and controls to properly, accurately and timely post payments and credits to customer accounts.

- **Intragovernmental Transactions.** Design and implement controls for intragovernmental transactions that include system controls to prevent services from being provided beyond the terms of the agreement (e.g., period of performance, funding amount) and to prevent duplicate transactions from being recorded in the general ledger.

- **Revenue Recorded Accurately and in the Appropriate Period.** Design and implement controls to properly record revenue transactions in the appropriate period, controls to review and validate pricing updates, controls to monitor sales transactions at or near period-end, controls to record revenue based on the proper triggering event, controls to manage and maintain documentation to substantiate the revenue transaction, and controls to validate that the accruals are recorded at the appropriate amount and in the correct period.

- **Fuel Exchange Agreements.** Design, document and implement controls around the FEA process and include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls.

- **Manually Recorded Collections.** Design and implement controls over DFAS' processing of manually recorded collections to validate that the collections are accurate and properly supported.

C. **Lack of or Inadequate Documentation to Substantiate AR and Revenue Transactions.**

- Develop documentation, including detailed listings of account balances, to substantiate that the population of AR (federal and with the public), UCO and deferred revenue transactions are complete and accurate and that the balances in the population exist. The listing should be reconciled to the general ledger.

- Develop documentation to substantiate that the population of revenue transactions recorded are complete and accurate and have occurred.

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D. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** Design and implement policies, procedures and controls to properly recognize revenue earned and to assess the collectability of the receivable related to unfunded work orders in accordance with SFFAS No. 7 and the DoD FMR.

IV. Accounts Payable and Expense

Accounts payable (AP) consist of amounts owed to vendors. Expenses are incurred and recognized when DLA 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's procure to pay process. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that provide reasonable assurance that expenses and budgetary transactions applicable to the agency's operations are properly recorded and accounted for to permit the preparation of reliable financial reports. Because of the nature of its operations, DLA has a significant volume of transactions to procure goods and services to sell to its customers. Deficiencies existed in DLA's processes for recording and supporting AP, expenses and the related budgetary balances; recording transactions in the proper period; documenting policies, procedures and controls; and designing and executing controls over the processes to create and approve obligations and to review, record and pay invoices.

A. **Lack of or Inadequate Documentation of UDOs, Unliquidated Obligation (ULO), AP and Expenses Accounting Policies, Procedures and Controls.** DLA did not document the end-to-end processes to account for UDOs, AP and expense transactions.

- **UDOs.** The documentation did not include the process to review the validity of significantly aged UDOs. As a result, there was a significant number of UDO transactions that had no current-year activity.

- **AP.** The documentation did not include the process to evaluate the validity of AP, including significantly aged AP and negative payables; the process to record invoices, including interfund transactions received, in the general ledger and submit to DFAS for payment timely; and the process to pay invoices timely or assess interest penalties for late payments in accordance with the Prompt Payment Act.

- **Non-Monetary Exchange Transactions**. Documentation did not include the process for the proper accounting treatment for non-monetary exchange transactions.

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- **ULO.** The documentation did not include the process to review the validity of significantly aged ULO.

- **Offsetting Transactions.** Documentation did not include the process and controls to analyze AR and AP transactions to determine proper offsetting, recording and presentation in accordance with the customer or vendor agreement.

- **Foreign Currency Transactions.** Documentation did not include the process and controls to account for transactions made in foreign currency, including the respective gains and losses.

B. **Lack of or Inadequate Controls Over UDOs**, **ULO**, **AP**, **Expenses and Cash Disbursement Processes.** DLA lacked or did not have adequate controls over the following:

- **Inadequately Designed Controls Over AP and Expense Processes.** Controls that have been implemented were not designed effectively. For example, the information used in the control activity was not assessed for completeness and accuracy. In addition, sufficient documentation did not exist to evidence the performance of the control activities.

- **UDOs.** DLA lacked controls to approve and record obligations in a timely manner, controls to record downward and upward adjustments to UDOs accurately and timely, and controls to close invalid UDOs in a timely manner.

- **Vendor Contracts.** DLA lacked controls to execute contracts in accordance with the Federal Acquisition Regulation (FAR) and record obligations timely for contracts, including Indefinite Quantity Contracts (IQC). For example, IQCs awarded did not have an obligation recorded at the contract award date because the IQC did not have a guaranteed minimum at contract award date.

- **AP and Cash Disbursements.** DLA lacked controls to post goods receipts in a timely manner; review invoices prior to payment; and post payments, including payments that fail to post systematically, in a timely manner.

- **AP and Expenses Recorded in the Appropriate Period.** DLA lacked controls to record AP and expense transactions appropriately and accurately in the period that the transaction occurred.

- **Transactions Recorded at the Detailed Level.** DLA lacked controls to properly classify vendors as federal or with the public at the transaction level.

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C. **Lack of or Inadequate Documentation to Substantiate AP and Expense Transactions.** DLA was unable to provide documentation to support the existence of AP balances, or that expense transactions that occurred were accurately recorded in the financial statements. Specifically, documentation was not available to support the transactions and balances for various accounts, including AP, negative payables, UDOs (paid and unpaid) and upward and downward adjustments to delivered and undelivered orders.

D. **Lack of Policies**, **Procedures and Controls to Effectively Implement Accounting Standards.** DLA did not have policies, procedures and controls to effectively implement accounting standards. Specifically, DLA neither implemented nor applied the accounting set forth by SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, SFFAS No. 5, *Accounting for Liabilities of the Federal Government* or SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. For example:

- AP and accrued liabilities were not recorded appropriately. For example, DLA policy allows for a liability to be recorded without confirming whether a transfer of title has occurred or service has been rendered. Further, DLA did not have a policy to accrue for contractor services rendered but not submitted within the invoicing system by the end of the month.

- DLA did not match revenue with the related cost of sales where the customers place the order directly with the vendor, such as medical, clothing and textile sales. DLA did not record the revenue earned in the same period that the liability was recorded.

- DLA processes allowed for payment without receipt, thus resulting in a negative payable balance. This occurs when payment is made prior to the goods receipts being posted in the general ledger. This resulted in an understatement of expenses and payables, and a misstatement of UDOs.

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Recommendations

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

A. **Lack of or Inadequate Documentation of UDOs, ULO, AP and Expenses Accounting Policies, Procedures and Controls.** Update and finalize the PCMs that document the end-to-end processes for UDOs, AP and expenses.

- **UDOs.** Document the process to review the validity of significantly aged UDOs, including a process to write off residual UDOs for completed transactions.

- **AP.** Document the process to evaluate the validity of AP, including significantly aged AP and negative payables; the process to record invoices, including interfund transactions received, in the general ledger and submit to DFAS for payment timely; and the process to pay invoices timely or assess interest penalties for late payments in accordance with the Prompt Payment Act.

- **Non-Monetary Exchange Transactions.** Document the accounting and financial reporting requirements for non-monetary exchange transactions.

- **ULO.** Document the process to review the validity of significantly aged ULO, including the process to write off residual ULO for completed transactions.

- **Offsetting Transactions.** Document the process and controls implemented to analyze customer and vendor agreements to determine proper offsetting, recording, and presentation of AR and AP transactions.

- **Foreign Currency Transactions.** Document the process and controls to identify, monitor and account for foreign currency transactions.

B. **Lack of or Inadequate Controls Over UDOs, ULO, AP, Expenses and Cash Disbursement Processes.**

- **Inadequately Designed Controls Over AP and Expense Processes.** Design and implement internal control activities and include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls. In addition, evidential matter should be available to demonstrate that the control activity was performed, the scope of the review should be sufficient to identify and correct errors in the procedures performed, and the assessment of any variances should be performed appropriately.

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- **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, and controls to close invalid UDOs in a timely manner.

- **Vendor Contracts.** Design and implement controls to execute contracts in accordance with the FAR for IQC contracts and record obligations timely for awarded contracts. For example, controls that prevent contracts from being completed and executed without the appropriate terms and conditions required by the FAR.

- **AP and Cash Disbursements.** Design and implement controls to post goods receipts in a timely manner; review invoices prior to payment; and post payments, including payments that fail to post systematically, in a timely manner.

- **AP and Expenses Recorded in the Appropriate Period.** Design and implement controls to record AP and expense transactions appropriately and accurately in the period that the transaction occurred and controls to monitor expense transactions at or near period-end.

- **Transactions Recorded at the Detailed Level.** Design and implement controls to appropriately identify vendors as federal or with the public.

C. **Lack of or Inadequate Documentation to Substantiate AP and Expense Transactions.** Design and implement policies and procedures to retain documentation to support that AP balances exist, or that expense transactions occurred and are accurately recorded in the financial statements.

D. **Lack of Policies**, **Procedures and Controls to Effectively Implement Accounting Standards.** Design and implement policies, procedures and controls to record expenses incurred in the proper period; and to match revenue with the related cost of sales in accordance with SFFAS No. 1, No. 4, No. 5 and No. 7.

V. Financial Reporting

Financial reporting encompasses all aspects of operations affecting DLA'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's processes related to the accumulation and presentation of its financial position and results of operations.

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A. **Lack of or Inadequate Documentation of Financial Reporting and Budgetary Policies, Procedures and Controls.** DLA did not document the end-to-end processes 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 JVs and processes to review the completeness and accuracy of reports and data used in the financial reporting analyses and controls.

- **Funds Management.** The documentation did not sufficiently include a description of the process to record budget authority or the transfer process.

B. **Lack of Controls Over Compliance with the TFM United States Standard General Ledger (USSGL).** DLA 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 have controls to link business events to the correct posting logic. As a result, transactions were not recorded appropriately. For example, DLA inappropriately used a general ledger account (negative payables) to track payments made without goods received. Additionally, DLA did not implement the TFM update to add USSGL account 425400 – Reimbursements and Other Income Earned – Collected From Non-Federal Sources. In addition, the posting logic for various inventory transactions, such as recoupment from returns, disposal and material transfers, and service revenue transactions did not meet the corresponding TFM business events.

C. **Lack of or Inadequate Controls Over Financial Reporting Processes.** DLA lacked or did not have adequate controls over the following:

- **Beginning Balances for Budgetary Accounts.** DLA did not have controls to verify the accuracy of the beginning balances for budgetary accounts, such as Total Actual Resources Collected and Contract Authority Carried Forward accounts. As a result, DLA was unable to substantiate beginning balances recorded on the financial statements.

- **Trading Partner Transactions.** DLA did not have controls in place to validate and reconcile trading partner eliminations. Adjustments made to AR, AP, revenue, expenses and undisbursed funds were not appropriately supported. A complete reconciliation was not performed at the agreement level to the trading partner adjustments that were being made. As a result, trading partner adjustments were recorded in Defense Departmental Reporting System (DDRS) as "top-side" adjustments and were identified as "unsupported" by DFAS.

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- **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.

- **Interfaces Between Feeder Systems and the General Ledger.** DLA did not have adequate controls to interface and post transactions between feeder systems and the general ledger appropriately. As a result, failed interface transactions were not reviewed and resolved in a timely manner.

- **Financial Statement Close Process.** DLA did not have adequately designed controls around the annual close and reconciliation processes, such as the monthly or quarterly reconciliation between the unadjusted trial balance (UTB) and the adjusted trial balance (ATB) was not performed sufficiently and timely, 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 did not have adequately designed controls around the tie-point process. There were reconciliation issues between the budgetary and proprietary tie points. As a result, DFAS records unsupported monthly and quarterly JVs in the general ledger and DDRS to reconcile DLA's budgetary accounts to the proprietary accounts.

- **Monthly and Quarterly JV Adjustments.** DLA did not have controls to review and approve JV adjustments recorded in the general ledger and DDRS by DLA and DFAS for completeness, accuracy and validity. As a result, a comprehensive listing of adjustments made was not maintained to allow DLA to determine the appropriateness and proper recording of each JV adjustment, including those recorded by its 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. As a result, inaccurate balances and disclosures were reported in the financial statements and notes. For example, line items were not appropriately classified between federal and with the public; supporting documentation did not support the balances recorded in the notes; and the financial statements were not prepared in conformity with U.S. GAAP as described in Note 1, Significant Accounting Policies, which did not sufficiently describe changes or noncompliance in U.S. GAAP reporting.

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- **Accounting Standards.** DLA did not have policies, procedures and controls to effectively implement accounting standards such as SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, SFFAS No. 47, *Reporting Entity*, SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*, SFFAS No. 53, *Budget and Accrual Reconciliation*, SFFAS No. 54, *Leases*, SFFAS No. 55, *Amending Inter-Entity Cost Provisions*, SFFAS No. 58, *Deferral of the Effective Date of SFFAS 54* and SFFAS No. 62, *Transitional Amendment to SFFAS 54*.

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

- **Accounting for Direct Appropriations.** DLA did not have adequate controls to account for the receipt and expenditure of direct appropriations in the general ledger accurately and in a timely manner.

- **Monitoring the Status of Budgetary Resources.** DLA did not have adequately designed controls to monitor the status of budgetary resources that would prevent obligations from occurring in excess of available funding amounts.

D. **Lack of or Inadequate Documentation to Substantiate Budgetary Execution.** DLA was unable to provide detailed listings for budgetary accounts at the purchase order (PO) or sales order (SO) level that reconcile to the general ledger, such as delivered and undelivered orders and unfilled customer orders. As such, the budgetary accounts were not appropriately supported.

Recommendations

Consider the following corrective actions related to the deficiencies identified 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 in providing oversight of service providers. Additionally, evaluate the current policies and procedures for evaluating information produced by the entity.

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- **Funds Management.** Document the funds management process and controls to accurately reflect all aspects of the end-to-end budget to execute process, including processes and controls performed by DLA and service providers.

B. **Lack of Controls Over Compliance with the TFM United States Standard General Ledger (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.**

- **Beginning Balances for Budgetary Accounts.** Design and implement control activities to accurately state the beginning balance for carryforward budgetary accounts.

- **Trading Partner Transactions.** Design and implement controls to perform a reconciliation at the agreement level to validate trading partner eliminations, which includes identifying, researching and resolving variances between DLA general ledger data and trading partners.

- **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.

- **Interfaces Between Feeder Systems and the General Ledger.** Design and implement controls to review and resolve interface transactions that fail to post to the general ledger on a timely basis.

- **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 reconcile budgetary to proprietary tie points and investigate variances.

- **Monthly and Quarterly JV Adjustments.** Design and implement controls to review and approve JV adjustments recorded in the general ledger and DDRS by DLA and DFAS for completeness, accuracy and validity prior to posting.

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- **Financial Statement Review Process.** Design and implement controls to sufficiently review the quarterly and annual financial statements and disclosures, to detect and correct misstatements, and to review that the financial statements and disclosures are complete and prepared in accordance with U.S. GAAP.

- **Accounting Standards.** Design and implement policies, procedures and controls to analyze the impact of and implement accounting standards, as appropriate.

- **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.

- **Accounting for Direct Appropriations.** Develop and implement policies, procedures and internal controls to properly record direct and expended appropriations in the general ledger in an accurate and timely manner.

- **Monitoring the Status of Budgetary Resources.** Design and implement controls to monitor the status of budgetary resources that will prevent obligations from occurring that are in excess of available funding amounts.

D. **Lack of or Inadequate Documentation to Substantiate Budgetary Execution.** Develop and implement procedures to generate complete and accurate listings of budgetary accounts at the PO and SO levels that reconcile to the general ledger.

VI. Oversight and Monitoring

Oversight and monitoring relate to DLA'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 and Internal Control*.

A. **Lack of or Inadequate Documentation Around the OMB A-123 Program**. DLA did not document the end-to-end process to oversee and monitor the enterprise-level risks and controls, including its OMB A-123 program. Specifically, DLA 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.

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B. **Lack of or Inadequate Controls Around System Generated Reports.** DLA 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 assertion and identified Complementary User Entity Controls (CUECs) that users of the service organization (e.g., DLA) should have in place to supplement the service organization's internal controls. DLA did not perform sufficient oversight and monitoring of SOC 1 reports and did not sufficiently design, implement or monitor CUECs, control deviations and report qualifications 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 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 and to determine the impact of report qualifications and control deviations to DLA's system of internal controls.

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VII. 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's operations require DLA 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.

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

- Initial access provisioning was not performed in accordance with defined requirements to verify access granted was commensurate with access approved and required for the users' job responsibilities.

- Access recertification/user access reviews for privileged and non-privileged users were not performed to consistently evaluate both the need for access and the level of access provisioned.

- External user accounts were not disabled or terminated in a timely manner, as inactivity configuration thresholds were not aligned with enterprise policy requirements.

- Sufficient evidence to verify the completeness and accuracy of listings used in user access reviews, terminations, and activity audit logging was not retained.

- Handheld devices were not configured to enforce user ID and password requirements.

- Investigative, remediation, and activity monitoring actions for users identified as having inappropriate or unauthorized access during user access reviews were not performed in accordance with defined requirements and procedures.

- Procedures for reviewing and documenting audit log anomalies were not consistently executed, and evidence supporting investigation and resolution of identified events was not retained.

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 can ensure that only authorized applications and

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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 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 financial management information systems environment include the following:

- Monthly direct data change reviews identified non-privileged users making changes that were not subject to review. Additionally, only a subset of privileged user changes was reviewed and traced to appropriate authorizations.

- Users had access privileges enabling them to bypass the configuration management process and make changes directly to production.

- Evidence supporting that changes were formally reviewed and tested prior to migration to production was not consistently retained.

- Changes to background job configurations were not consistently routed through defined change management and monitoring processes.

- Documentation for weekly direct data change monitoring procedures was not retained to demonstrate weekly reviews, validation of direct data changes to approved changes, or follow up on identified anomalies.

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.

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The identified segregation of duties and conflicting role weaknesses in aggregate represent a significant risk to the DLA 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 financial management information systems environment include the following:

- A cross-application SoD analysis was not performed to determine whether conflicting roles exist across multiple applications supporting integrated business processes. Additionally, cross application SoD are not considered when provisioning user access.

- SoD conflicts are not consistently reviewed before access is provisioned to users or access is recertified.

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 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 financial management information systems environment include the following:

- SOC 1 reports were not monitored and reviewed to sufficiently assess:
  - Each business process that is dependent on the use of a service provider

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  - Performance of each internal control(s) performed by the service provider

- 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.

- Plan of Actions and Milestones (POA&Ms) were not created and tracked as a result of vulnerabilities identified through Assured Compliance Assessment Solution (ACAS) scanning.

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 involves 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 programs used to back up financially relevant data.

The identified IT operations weaknesses in aggregate represent a significant risk to the DLA 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 do not 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 financial management information systems environment include the following:

- Evidence is not retained to support verification that interface processing errors are being monitored and reviewed timely by management.

- Processes are not in place to approve, authorize, monitor, and maintain production batch job scheduling, or to restrict logical access to job processing and scheduling functions.

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- The complete number of unsuccessful backups was not reported, resulting in incomplete monitoring of backup operations.

- System and hardware listings required for weekly validation and comparison to daily backup reports were not retained.

Recommendations

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

Access Controls

- Confirm initial access provisioning is performed in accordance with defined requirements to verify access granted is commensurate with access approved and required for users' job responsibilities.

- Design and consistently implement the recertification of privileged and non-privileged users' access to evaluate both the need for access and appropriateness of the access level provisioned.

- Design and consistently implement procedures to disable or terminate external user accounts in accordance with enterprise policy and configured inactivity thresholds.

- Retain sufficient evidence to verify the completeness and accuracy of listings used in user access reviews, terminations, and activity audit logging.

- Configure handheld devices to enforce user ID and password requirements in accordance with enterprise policies and procedures.

- Design and consistently implement procedures to investigate, remediate, and monitor users identified as having inappropriate or unauthorized access during user access reviews.

- Enhance audit log monitoring processes to ensure accurate review of identified events and retention of supporting evidence for investigations and conclusions.

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Configuration Management Controls

- Design and implement procedures to review all direct data changes made by non-privileged and privileged users, and ensure changes are traced to appropriate authorizations.
- Restrict access privileges to prevent users from bypassing the configuration management process and making direct changes to production.
- Enforce change control documentation requirements to ensure evidence of testing and peer review is completed prior to production implementation.
- Integrate background job configuration changes into the standard change management life cycle.
- Design and implement procedures to require the retention of evidence demonstrating weekly direct data change reviews, validation of direct data changes to approved changes, and follow up on identified anomalies.

Segregation of Duties Controls

- Evaluate cross-application SoD to identify potential conflicts for users accessing multiple applications that support integrated business processes, and consider SoD conflicts when provisioning access.
- Consistently review segregation of duties conflicts prior to provisioning access and implement monitoring procedures to detect and remediate conflicts.

Security Management/Governance Over Implementation of Security Controls

- Design and implement procedures to monitor and review SOC 1 reports to sufficiently assess:
    - Each business process dependent on a service provider, and
    - Performance of each internal control performed by the service provider.
- Establish an overarching internal control program in compliance with OMB Circular A-123 to identify all financially significant risks, establish and implement controls, track known risk exposure, and remediate control gaps.

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- Design and implement procedures to create and track Plans of Action and Milestones (POA&Ms) for vulnerabilities identified through Assured Compliance Assessment Solution (ACAS) scanning.

IT Operations Controls

- Retain sufficient evidence to verify that interface processing errors are monitored and reviewed timely by management.

- Design and implement processes to approve, authorize, monitor, and maintain production batch job scheduling, and restrict logical access to job processing and scheduling functions.

- Design and consistently implement procedures to report the complete number of unsuccessful backups and ensure management oversight.

- Retain system and hardware listings required for weekly validation and comparison to daily backup reports, ensuring that validations are performed and monitored.

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Appendix B – Significant Deficiencies

I. Property, Plant and Equipment

Property, plant and equipment (PP&E) is comprised of general equipment, internal-use software (IUS) and construction-in-progress (CIP). In accordance with FMFIA, management is responsible for establishing and maintaining effective controls to achieve proper accountability for property and other assets for which the agency is responsible. However, DLA was unable to support the existence, completeness, rights and obligations or valuation of its PP&E.

A. **Lack of or Inadequate Documentation of PP&E Accounting Policies**, **Procedures and Controls.** DLA did not document the end-to-end process to account for, monitor and report PP&E and PP&E-related transactions. Specifically, a complete inventory of CIP has not been performed. DLA is in the process of establishing or revising its policies and procedures for performing these inventories on an ongoing basis.

B. **Lack of or Inadequate Documentation to Substantiate PP&E and PP&E-Related Transactions.** DLA was unable to provide documentation that PP&E balances exist, that transactions occurred or that DLA has rights to the PP&E recorded in the financial statements. Specifically, documentation was not available to support:

- The completeness and existence of general equipment assets.
- The validity of PP&E additions and disposals.

C. **Lack of or Inadequate Policies**, **Procedures and Controls Over PP&E Processes.** DLA lacked or did not have adequate policies, procedures and controls over the following:

- **Inadequately Designed Controls Over PP&E Processes.** Controls that have been implemented were not designed adequately. For example, the information used in the control activity was not assessed for completeness and accuracy. In addition, sufficient documentation did not exist to evidence the performance of the control activities. As a result, DLA was unable to demonstrate that control activities were operating effectively.
- **IUS.** DLA policy states that IUS assets are recorded as in-service PP&E upon the completion of the asset. However, IUS activity was not evaluated to determine whether the activity should be capitalized or expensed and to identify when assets are completed and should be placed in service.

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D. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** DLA did not have policies, procedures and controls to effectively implement accounting standards, causing an inaccurate presentation of PP&E on the balance sheet and in the related footnote disclosure. Specifically, DLA neither implemented nor applied the accounting and valuation methodologies set forth by SFFAS No. 5, *Accounting for Liabilities of the Government*, SFFAS No. 6, *Accounting for Property, Plant and Equipment*, SFFAS No. 10, *Accounting for Internal Use Software* and SFFAS No. 50, *Establishing Opening Balances for Property, Plant and Equipment*. For example:

- DLA was unable to support the values assigned to general equipment assets, including substantiating that the application of SFFAS No. 6 and SFFAS No. 50 was consistent and appropriate. To account for a significant number of assets that have not been valued, DLA assigned placeholder values to these assets until the valuation process is completed, resulting in misstatements in the financial statements.

- DLA was unable to support the values assigned to IUS assets in accordance with SFFAS No. 10.

Recommendations

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

A. **Lack of or Inadequate Documentation of PP&E Accounting Policies, Procedures and Controls.** Document the end-to-end processes and controls to account for, monitor and report PP&E and PP&E-related transactions. Complete the inventory of CIP to verify the existence and completeness of the accounting records.

B. **Lack of or Inadequate Documentation to Substantiate PP&E and PP&E-Related Transactions.**

- Develop documentation to substantiate that all of DLA's general equipment assets are recorded accurately and completely.

- Assess the data elements in the APSR to allow DLA to differentiate between assets that have been added to or removed from the capital PP&E population and assets that have changed or to assign a unique identifier to each asset that allows for additions and disposals to be identified.

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C. **Lack of or Inadequate Policies, Procedures and Controls Over PP&E Processes.**

- **Inadequately Designed Controls Over PP&E Processes.** Design and implement internal control activities that include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls.

- **IUS.** Design and implement policies and procedures that require IUS activity to be reviewed for proper capitalization, recorded in the appropriate period and classified appropriately when assets are completed and placed in service.

D. **Lack of Policies, Procedures, and Controls to Effectively Implement Accounting Standards.** Design policies, procedures and controls to implement the appropriate accounting standards, specifically SFFAS No. 5, SFFAS No. 6, SFFAS No. 10 and SFFAS No. 50. The policies, procedures and controls should include:

- Substantiating the values, including the alternate values, assigned to general equipment assets and that the application of SFFAS No. 6 and SFFAS No. 50 is consistent and appropriate.

- Assessing whether the values assigned to IUS assets are in accordance with SFFAS No. 10. In addition, evaluate alternative valuation methodologies available under SFFAS No. 50. SFFAS No. 50 permits the exclusion of IUS and IUS under development from the opening balance as of the opening balance date.

II. Environmental Liabilities

ELs are comprised of cleanup costs associated with the restoration of sites on real property that DLA manages. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. However, deficiencies existed related to DLA's review of data used in the estimation of EL.

A. **Inadequately Designed Controls Over Information Used in the Estimation Process.** DLA does not have procedures to assess the completeness or accuracy of information used in control activities. As a result, DLA was unable to demonstrate that control activities were operating effectively.

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Recommendations

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

A. **Inadequate Controls Over Information Used in the Estimation Process.** Design and implement controls that adequately address the risks of using incomplete or inaccurate data in the process of estimating ELs.

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Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the 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 were engaged to audit, 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 Working Capital Fund of the Defense Logistics Agency (DLA), which comprise the balance sheet as of September 30, 2025, and the related statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the "financial statements"), and our report dated November 21, 2025 expressed a disclaimer of opinion thereon that included a Departures from U.S. Generally Accepted Accounting Principles section regarding DLA not having implemented certain accounting standards for the federal government. The effect of these matters on DLA's financial statements as of and for the year ended September 30, 2025 is not currently determinable by DLA and could be material. Our report disclaims an opinion on the financial statements because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report which indicates we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of DLA's 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 engagement, 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'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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Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report on Internal Control Over Financial Reporting dated November 21, 2025, includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

FFMIA

Under FFMIA, we are required to report whether DLA's financial management systems substantially comply with federal financial management system 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 the tests disclosed instances in which DLA's financial management systems did not substantially comply with federal financial management system requirements, applicable federal accounting standards or the USSGL.

(a) Federal financial management system requirements

As referenced in the FY 2025 DLA Management Assurances Letter and in *Summary of Financial Statement Audit and Management Assurances* within the Other Information section of the FY 2025 DLA Working Capital Fund Agency Financial Report, DLA self-identified that their financial management systems do not allow for DLA to substantially comply with federal financial management system requirements, applicable federal accounting standards or the USSGL.

EY also 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.

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(b) Noncompliance with applicable federal accounting standards

As referenced in Note 1 to the financial statements, DLA self-identified that the design of their financial and non-financial systems does not allow DLA to comply with applicable federal accounting standards, including not being able to collect and record financial information as required by U.S. generally accepted accounting principles. EY also 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, and those findings were included in our Report on Internal Control Over Financial Reporting.

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) *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.

DLA was not able to provide evidence that they are in compliance with significant aspects of OMB Circular A-123, which implemented FMFIA. DLA provided a FY 2025 Management Assurances Letter; however, there was not sufficient evidence that DLA fully completed an organizational risk assessment, identified relevant risks related to the financial statement assertions, documented the internal control standards as it relates to those assertions, performed internal control testing, and reported and tracked control deficiencies at the control level for each process identified. DLA provided evidence demonstrating that DLA has started to implement a testing strategy; however, DLA is unable to provide evidence that the extent of testing and review performed is sufficient to meet the requirements of FMFIA.

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DLA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DLA's response to the findings identified in our engagement and described in the accompanying Management's Response to the Audit Reports dated November 21, 2025. DLA's response was not subjected to the other auditing procedures applied in the engagement to audit 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 November 21, 2025 on our consideration of DLA'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 and the results of that testing, and not to provide an opinion on the effectiveness of DLA's internal control. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DLA's internal control.

Ernst + Young LLP

November 21, 2025

MANAGEMENT'S RESPONSE TO AUDIT REPORTS

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

November 21, 2025

MEMORANDUM FOR DEPARTMENT OF DEFENSE (OFFICE OF THE INSPECTOR GENERAL)

SUBJECT: Ernst & Young, LLP Fiscal Year (FY) 2025 Financial Statement Audit - Working Capital Fund (WCF)

The Defense Logistics Agency (DLA) would like to express our sincere appreciation for Ernst & Young, LLP's (E&Y) Independent Auditor Reports for Fiscal Year (FY) 2025. Your thorough and professional approach has provided DLA with invaluable insights to strengthen our internal controls and enhance our risk management practices.

The findings and recommendations outlined in the audit have highlighted key areas for improvement, and we acknowledge the work that remains ahead. The audit has been instrumental in helping us identify opportunities to refine our processes, strengthen controls, improve the quality of evidential matter, and enhance the accuracy of Information Provided by Entity (IPE). These efforts are critical to ensuring compliance with audit standards and maintaining the integrity of our financial statements. As we look ahead to FY 2026, DLA is fully committed to addressing the critical conditions identified during the audit. Our focus will remain on developing and implementing well-documented policies and procedures, advancing risk mitigation strategies, and fostering a robust internal control environment. These priorities will guide our efforts to achieve sustainable improvements and meet the expectations of all stakeholders.

We are grateful for E&Y's constructive feedback, open communication, and unwavering professionalism throughout the audit process. Your partnership has been instrumental in helping us navigate the complexities of the Working Capital Fund (WCF) processes and controls. We value the collaborative relationship we have built and look forward to continuing our work together to achieve shared goals. Thank you for your dedication and support. We appreciate the opportunity to work with your team and benefit from your expertise.

Susan J. Goodyear

SUSAN J. GOODYEAR
Director, DLA Finance
Chief Financial Officer

Leadership, Logistics, and Strategic Planning Visit

From Richmond to Philadelphia, DLA Director Army Lt. Gen. Mark Simerly visited DLA teams across the country to review their 2025 Annual Operating Plans and connect with the workforce. **Photo by:** DLA

INTRODUCTION TO THE DLA WCF PRINCIPAL FINANCIAL STATEMENTS

The DLA WCF 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 WCF. The Independent Public Accountant (IPA) was engaged to perform the audit of DLA WCF's financial statements and disclaimed an opinion on these financial statements. The Audit Report, and Management's Response to the Audit Report, accompany the unaudited financial statements.

The DLA WCF financial statements consist of the following:

The Balance Sheet presents those resources owned or managed by DLA WCF that represent future economic benefits (assets), amounts owed by DLA WCF that will require payments from those resources or future resources (liabilities), and residual amounts retained by DLA WCF comprising the difference (net position) as of September 30, 2025.

The Statement of Net Cost presents the net cost of DLA WCF operations for the year ended September 30, 2025. DLA WCF's net cost of operations is the gross cost incurred by DLA WCF activities, less any exchange revenue earned and inter-entity eliminations from DLA WCF activities.

The Statement of Changes in Net Position presents the change in DLA WCF's net position resulting from the net cost of DLA WCF's operations, budgetary financing sources, and other financing sources for the year ended September 30, 2025.

The Combined Statement of Budgetary Resources presents how and in what amounts budgetary resources were made available to DLA WCF, the status of DLA these resources, and the net outlays of budgetary resources for the year ended September 30, 2025.

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

DLA San Joaquin Supports Fight Against Wildfires

DLA is busy supporting the fight against wildfires. With fire mission materials and supplies shipped this year, DLA is helping agencies on the frontlines across California and the U.S.

Photo by: DLA

Balance Sheet

As of September 30, 2025 (dollars in thousands)

		Unaudited FY 2025
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$	2,969,320
Accounts Receivable, Net (Note 3)		2,247,988
Other Assets (Note 4)		123,306
Total Intragovernmental		**5,340,614**
Other than Intragovernmental		
Accounts Receivable, Net (Note 3)		825,804
Inventory and Related Property, Net (Note 5)		23,142,818
General Property, Plant and Equipment, Net (Note 6)		893,033
Advances and Prepayments		99,688
Total Other than Intragovernmental		**24,961,343**
TOTAL ASSETS	**$**	**30,301,957**
LIABILITIES (Note 7)		
Intragovernmental Liabilities		
Accounts Payable	$	239,890
Other Liabilities - Benefit Contributions Payable (Note 8)		41,024
Total Intragovernmental Liabilities		**280,914**
Other than Intragovernmental Liabilities		
Accounts Payable		2,816,913
Environmental and Disposal Liabilities (Note 10)		323,547
Federal Employee Salary, Leave, and Benefits Payable (Note 8)		269,380
Pension and Post-Employment Benefits Payable (Note 8)		166,922
Advances from Others and Deferred Revenue		3,520
Other Liabilities (Note 9)		5,090
Total Other than Intragovernmental Liabilities		**3,585,372**
TOTAL LIABILITIES	**$**	**3,866,286**
Commitments and Contingencies (Note 11)		
NET POSITION		
Unexpended Appropriations - Funds from Other than Dedicated Collections	$	686,191
Cumulative Results of Operations - Funds from Other than Dedicated Collections		25,749,480
TOTAL NET POSITION	**$**	**26,435,671**
TOTAL LIABILITIES AND NET POSITION	**$**	**30,301,957**

The accompanying notes are an integral part of these statements.

Statement of Net Cost

For the Year Ended September 30, 2025 (dollars in thousands)

		Unaudited FY 2025
Energy		
Gross Cost	$	12,464,557
Less: Earned Revenue		(12,190,260)
Net Cost		**274,297**
Supply Chain Management		
Gross Cost		42,827,735
Less: Earned Revenue		(40,553,169)
Net Cost		**2,274,566**
Document Services		
Gross Cost		247,704
Less: Earned Revenue		(269,961)
Net Cost		**(22,257)**
Total Gross Cost		**55,539,996**
Less: Total Earned Revenue		**(53,013,390)**
NET COST OF OPERATIONS	**$**	**2,526,606**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position

For the Year Ended September 30, 2025 (dollars in thousands)

		Unaudited FY 2025
Unexpended Appropriations		
Beginning Balances	$	883,887
Appropriations Transferred-in/out		2,256
Appropriations Used		(199,952)
Net Change in Unexpended Appropriations		**(197,696)**
Total Unexpended Appropriations: Ending Balance	**$**	**686,191**
Cumulative Results of Operations		
Beginning Balances	$	27,271,547
Appropriations Used		199,952
Transfers-in/out Without Reimbursement		461,963
Imputed Financing		342,624
Net Cost of Operations		**2,526,606**
Net Change in Cumulative Results of Operations		**(1,522,067)**
Cumulative Results of Operations: Ending Balance	**$**	**25,749,480**
TOTAL NET POSITION	**$**	**26,435,671**

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

For the Year Ended September 30, 2025 (dollars in thousands)

		Unaudited FY 2025
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net	$	548,495
Appropriations		2,256
Contract Authority		61,560,242
Spending Authority from Offsetting Collections		330,100
TOTAL BUDGETARY RESOURCES	**$**	**62,441,093**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments	$	61,933,961
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts		507,132
Unexpired Unobligated Balance, End of Year		507,132
Total Unobligated Balance, End of Year		507,132
TOTAL BUDGETARY RESOURCES	**$**	**62,441,093**
OUTLAYS, NET		
Outlays, Net	$	516,420
AGENCY OUTLAYS, NET	**$**	**516,420**

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Summary of Significant Accounting Policies (Unaudited)

A. Reporting Entity

Created in 1961, DLA is a component of the U.S. DoD and reports to the OUSD for Acquisition and Sustainment through the Assistant Secretary of War for Sustainment. The 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 public entities. The DLA accomplishes its mission and goals through the operations of the DLA WCF, DLA GF, and DLA NDSTF.

The DLA WCF has three major activity groups (DLA Energy, DLA SCM, and DLA Document Services) and two support programs, included within DLA SCM, as described below, to execute its mission to provide supply, logistics, distribution, and disposition service support. These activities are the primary revenue generators within DLA WCF.

DLA Activity Groups

DLA Energy (Fort Belvoir, Virginia) - provides petroleum products/lubricants, supply chain services, sustainment, restoration and modernization, transportation, aerospace energy, fuel quality/technical support, installation energy, and utility services.

DLA Supply Chain Management:

Troop Support (Philadelphia, Pennsylvania) - consists of four commodities:

- **Subsistence** - provides food support for the military all over the world;
- **Clothing and Textiles (C&T)** - provides clothing, textiles, and equipment to U.S. service members, other Federal Agencies, and partner nations;
- **Construction and Equipment (C&E)** - provides construction materials, heavy equipment, tactical gear, firefighting equipment, minerals and precious metals to wood products, imaging, and information equipment; and
- **Medical** - provides medical and pharmaceutical supplies.

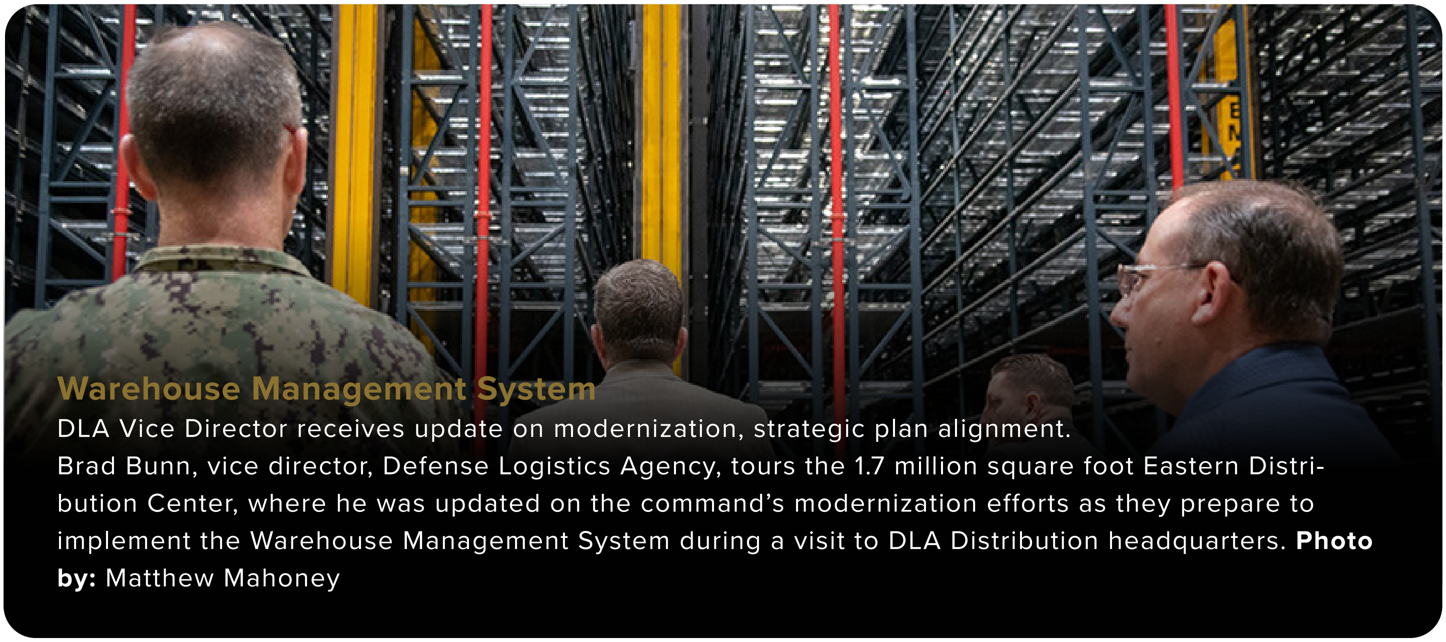
Aviation (Richmond, Virginia) - provides repair parts and industrial items such as screws, nuts, and bolts, typically referred to as bench stock for aviation weapons systems.

Land and Maritime (Columbus, Ohio) - provides repair parts and industrial items such as screws, nuts, and bolts, typically referred to as bench stock for ground-based, maritime, aviation, and foreign military systems.

DLA Support Services Programs: provides distribution support to SCM and may also perform disposition services on behalf of the three DLA Activity Groups, as well as other Federal and public entities. DLA Support Services is made up of:

- **DLA Distribution** (New Cumberland, Pennsylvania) - provides storage and distribution solutions, transportation planning, logistics planning, and contingency operations, as well as operating a global network of 34 distribution centers.
- **DLA Disposition Services** (Battle Creek, Michigan) - disposes of excess property by reutilization, transfer, and demilitarization, and conducts environmental disposal and reuse.

DLA Document Services: (New Cumberland, Pennsylvania) - provides automated document production, printing services, digital conversion, and docu-



Warehouse Management System

DLA Vice Director receives update on modernization, strategic plan alignment.
Brad Bunn, vice director, Defense Logistics Agency, tours the 1.7 million square foot Eastern Distribution Center, where he was updated on the command's modernization efforts as they prepare to implement the Warehouse Management System during a visit to DLA Distribution headquarters. **Photo by:** Matthew Mahoney

ment storage.

These financial statements and accompanying notes herein only refer to the activities of the reporting entity DLA WCF.

The DLA WCF is a component of the U.S Government. For this reason, some of the assets, liabilities, expenses, revenues, and transfers in/out 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.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to the Definition of Reporting Entity.)

B. Basis of Presentation and Accounting

The DLA WCF fiscal year ends September 30. The accompanying financial statements account for all resources for which DLA WCF is responsible. These financial statements present the financial position, results of operations, changes in net position, and the combined budgetary resources of DLA WCF, as required by the CFO Act of 1990, expanded by the GMRA of 1994, and other applicable legislation. The financial statements are prepared from the books and records of DLA WCF activities in accordance with GAAP, promulgated by the FASAB[2], and presented in the format prescribed by the OMB Circular A-136, except as identified in Note 1.C., Departures from U.S. GAAP, and in the following paragraphs.

The DLA WCF financial statements reflect both accrual and budgetary accounting transactions, except as identified in Note 1.C., Departures from U.S. GAAP. 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.

The DLA WCF is unable to fully prepare financial statements in conformity with and implement all elements of U.S. GAAP (refer to Note 1.C., *Departures from U.S. GAAP*) and the form and content requirements for Federal government entities specified by OMB Circular A-136 due to limitations of financial and nonfinancial

[2] FASAB is the official body for setting accounting standards of the U.S. Government.

management processes and systems that support the financial statements. In addition, the financial management systems used by DLA WCF are unable to meet all full accrual and budgetary accounting requirements as many of the financial and nonfinancial feeder systems and processes were not designed to collect and record financial information on the full accrual accounting basis as required by U.S. GAAP. These systems were designed to support reporting requirements for maintaining accountability over assets, reporting the status of Federal appropriations, and recording information on a budgetary basis, rather than preparing financial statements in accordance with U.S. GAAP. Therefore, DLA WCF is continuing the necessary actions required to bring its financial and nonfinancial systems and processes to generate financial statements and the accompanying notes in accordance with U.S. GAAP and in compliance with the reporting requirements of OMB Circular A-136. The DLA is assessing financial feeder systems, processes, and their conformance to existence, completeness, and accuracy requirements as required by U.S. GAAP and OMB Circular A-136. As DLA WCF identifies non-conforming data issues, the Agency will continue to implement interim mitigation processes to address these limitations. In addition, DLA WCF is remediating material weaknesses found in all end-to-end business process cycles pertaining to reconciliations and adequacy of the supporting documentation identified through audits and other compliance reporting.

Consolidated Statement of Net Cost: The Statement of Net Cost presents the net cost of operations to provide an overview of DLA WCF's financial performance over the fiscal year. The Statement of Net Cost categorizes costs and revenues by the three major activity groups: Energy, SCM, and Document Services. The Statement of Net Cost is prepared using the accrual basis of accounting.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to the Statement of Net Cost.)

Combined Statement of Budgetary Resources: The Combined 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 Combined Statement of Budgetary Resources help ensure compliance with legal requirements and provide transparency regarding the usage of budgetary resources. The Combined Statement of Budgetary Resources present the following key components for the fiscal year:

1. **Budgetary Resources:** Total Budgetary Resources[3] available for the fiscal year, which include unobligated balances of resources from prior years and new budgetary authority. DLA WCF's new budgetary authority primarily consists of appropriations[4], spending authority from offsetting collections[5], and contract authority[6];

2. **Status of Budgetary Resources:** Reports availability of budgetary resources categorized

Supporting CENTCOM
DLA Bahrain team welcomed Army Col. Michelle Agpalza and her team for an operational tour and briefing. During the visit, she introduced new Deputy Commander Janice Rice and explored Bahrain's vital role in supporting CENTCOM with forward-positioned stock and multi-modal distribution. **Photo by:** DLA

into obligated[7] and unobligated[8] amounts; and

3. **Outlays, Net:** Comprised of Outlays[9] less Offsetting Receipts[10] (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 liabilities. Intragovernmental assets and liabilities arise from transactions among Federal entities. Intragovernmental assets are claims other Federal entities owe to DLA WCF. Intragovernmental liabilities are claims DLA WCF owes to other Federal entities, whereas Other than Intragovernmental assets and liabilities arise from transactions with public entities. The term "public entities" encompasses domestic and foreign persons and organizations outside the U.S. Government. Other than Intragovernmental assets are claims of DLA WCF against public entities. Other than Intragovernmental liabilities are amounts that DLA WCF owes to public entities. DLA WCF is unable to accurately map its trading partners to separate Intragovernmental and Other than Intragovernmental transactions in accordance with the Treasury Financial Manual (TFM), Volume I, Part 2 Central Accounting and Reporting, Chapter 4700, Federal Entity Reporting Requirements for the Financial Report of the United States Government.

The DLA WCF engages in transactions with other Federal entities that generate intragovernmental balances; however, DLA WCF is unable to reconcile and resolve differences between balances and transactions with other Federal entities in accordance with OMB Circular A-136 requirements and TFM, Volume I, Part 2, Chapter 4700, Federal Entity Reporting Requirements for the Financial Report of the United States Government.

Intra Departmental Transactions: The DLA WCF is ultimately responsible for the accuracy of its trading partner data with other Federal entities and initiating actions to reconcile balances with its trading partners; however, DLA WCF is unable to resolve the reconciling differences in amounts reported for the buyer/seller transactions reciprocal category with Other Defense Organizations (ODOs). A DoD reporting entity unable to provide detailed transactions at the appropriate time of the financial statement reporting cycle must adjust its balance to match the seller's or buyer's supportable data.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental and Other than Intragovernmental Transactions.)

Interfund Transactions: Interfund transactions and balances among DLA WCF activities (Energy, SCM, and Document Services) are eliminated from the Balance Sheet, the Consolidated Statement of Net Cost, and the Statement of Changes in Net Position. The

Continued on next page ▶

[3] 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."

[4] 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."

[5] 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."

[6] Per OMB Circular A-11, Section 20, "Contract authority is a type of budget authority that permits you to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations."

[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."

Combined Statement of Budgetary Resources are presented on a combined basis in accordance with OMB Circular A-136; therefore, interfund transactions have not been eliminated from these statements.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental and Other than Intragovernmental Transactions and Statement of Net Cost.)

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 WCF management has made certain estimates and assumptions when reporting assets, liabilities, revenue, expenses, and related disclosures in the notes. Uncertainties associated with these estimates exist and actual results may differ from these estimates; however, DLA WCF's estimates are based on historical experience, current events and other assumptions that are believed to be reasonable under the circumstances. Significant estimates underlying the accompanying financial statements include: (1) contingent liabilities; (2) Environmental and Disposal Liabilities (E&DL); (3) accruals for accounts receivable related to aerospace, customer direct, FEA, and inventory; (4) allowance for doubtful accounts; (5) accounts payable Mechanization of Contract Administration Services (MOCAS) and outbound Military Interdepartmental Purchase Request (MIPR) accruals; (6) undelivered orders; (7) FECA actuarial liability; (8) inventory defined as Excess, Obsolete, and Unserviceable (EOU); and (9) allowance for inventory held for repair as of the date of these financial statements.

C. Departures from U.S. GAAP

Financial management systems and processes continue to be evaluated and modified as DLA WCF strives to remediate its material weaknesses and record and report its financial activity in accordance with U.S. GAAP. Therefore, DLA WCF is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. However, due to the financial management systems and operational limitations, the known departures from U.S. GAAP described below that impact DLA WCF financial statements have been identified although other departures from U.S. GAAP may exist that have not been identified.

Definition of Reporting Entity (Note 1.A.): 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 WCF or the other party the ability to exercise significant influence over the other party's policy decisions. As a result, DLA WCF is unable to determine if there are consolidation entities that are required to be consolidated and disclosed in DLA WCF financial statements, or dis-

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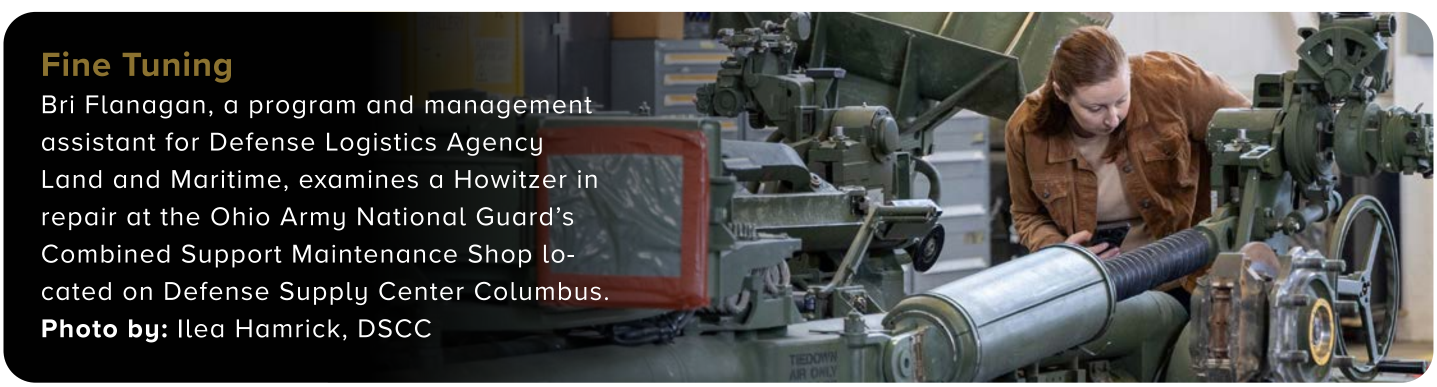


Fine Tuning
Bri Flanagan, a program and management assistant for Defense Logistics Agency Land and Maritime, examines a Howitzer in repair at the Ohio Army National Guard's Combined Support Maintenance Shop located on Defense Supply Center Columbus.
Photo by: Ilea Hamrick, DSCC

closure entities and related parties where the nature and magnitude of such relationships are required to be disclosed in a Disclosure Entities and Related Parties note to the financial statements.

Statement of Net Cost (Note 1.B.): The DLA WCF does not have the proper policies and compliant processes in place to present its major program costs aligned with DLA WCF mission and goals by responsibility segments in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, and OMB Circular A-136.

Intragovernmental and Other than Intragovernmental Transactions (Note 1.B.): The DLA WCF does not have compliant processes in place to properly report and distinguish between intragovernmental and Other than Intragovernmental transactions in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. The DLA WCF is unable to accurately map, validate, and reconcile trading partner eliminations between intragovernmental and Other than Intragovernmental transactions.

Inter-Entity Cost (Note 1.R.): The DLA WCF does not have compliant processes in place to recognize all significant inter-entity costs related to inputs of its goods or services provided to entities for a fee or user charge in accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions* (effective FY 2019). Generally, the fees and user charges should recover the full costs of those goods and services. Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold.

Fund Balance with Treasury (Note 1.E. and Note 2): The DLA WCF is not able to account for Fund Balance with Treasury (FBwT) in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, due to its inability to identify and reconcile the reported differences between DLA WCF's accounting system and Treasury. Monthly unsupported journal vouchers are made to adjust the FBwT balances in DLA WCF financial statements to match U.S. Treasury records.

Accounts Receivable, Net; Revenue; and Unfilled Customer Orders (Notes 1.F. 1.R. and 1.T., Note 3; Note 5; and Note 12): The DLA WCF does not have policies and compliant processes in place to: (1) recognize revenue and record the related accounts receivable, net and Unfilled Customer Order (UCO) balances from goods sold and services provided in the proper period; (2) identify, evaluate, record, and report an allowance for doubtful accounts related to intragovernmental receivables in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, and Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*; and (3) adjust revenue to the extent that realization of the full amount is not probable in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources* and *Concepts for Reconciling Budgetary and Financial Accounting*. More specifically.

Direct Sales - DLA WCF Holds the Inventory to be Sold: In some instances, the current distribution system that DLA WCF uses is not in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as revenue may be recognized before materials are shipped or delivered to the customer.

Consignment/Direct Sales - Third Party Holds the Inventory to be Sold: For inventory that is managed by a third party, revenue is recognized on the date DLA WCF bills the customer, which may occur before DLA WCF releases control of the materials and is not in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Customer Direct Sales: The customer direct process is where DLA WCF permits its customers to order goods directly from DLA WCF's authorized vendors. Under DLA WCF's business structure, DLA WCF has the obligation to pay the vendor and the right to collect payment from the customer. Therefore, DLA WCF incurs a liability and earns revenue at the time the customer accepts the goods from the vendor. However, while DLA WCF records an accrual for the liability incurred, DLA

WCF does not account for the revenue earned at the same time in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Customer Returns: The DLA WCF does not match the customer returns to the original sales orders and improperly decreases revenue, cost of goods sold, and contract authority liquidated for the amount of the return, which is not in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Fuel Exchange Agreement (FEA) Business Process: The DLA WCF does not have policies and compliant processes in place to: (1) properly adjust the budgetary accounts in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* when the netting of individual sales and purchase transactions occur; (2) recognize and value appropriately the replacement-in-kind transactions in accordance with SFFAS 3, *Accounting for Inventory and Related Property;* and (3) demonstrate that the monthly accrual methodology for FEA is in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government,* and SFFAS 1, *Accounting for Selected Assets and Liabilities.*

Unfilled Customer Orders: The DLA WCF does not properly record UCO activity and is unable to support the UCO balance in the accounting system in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.*

Revenue: The DLA WCF performs services for other Federal entities and recognizes accounts receivable and revenue for these transactions without assessing the probability of collection which is not in accordance with Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables SFFAS 1, *Accounting for Selected Assets and Liabilities,* and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. In addition, DLA WCF is unable to produce a population of customer disputes which impacts their ability to support the allowance for returns in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities,* and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.*

Foreign Currency: The DLA WCF does not have a policy and compliant processes in place to determine the significant effects, if any, of changes in the exchange rate related to recording foreign currency transactions in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.* This also impacts accounts payable.

Inventory and Related Property, Net (Note 1.H. and Note 5): The DLA WCF does not have policies and compliant processes in place to account for inventory and related property, net or properly account for gains and losses on adjustments to inventory in situations where DLA WCF owns the same material as held for a customer or held as EOU in accordance with SFFAS 3, *Accounting for Inventory and Related Property,* and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Furthermore, DLA WCF has not completed establishing inventory and related property beginning balances using deemed cost and has not made an unreserved assertion as permitted by SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* (effective FY 2017). More specifically:

Inventory Transfers-in without Reimbursement: The DLA WCF is unable to demonstrate whether the accounting treatment of inventory purchased and received from vendors under Performance Based Logistics (PBL) contracts as transfers-in is appropriate in accordance with SFFAS 3, *Accounting for Inventory and Related Property* and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Excess, Obsolete, and Unserviceable: The DLA WCF does not have procedures in place to review and determine if additional material in its accounting system should be classified as EOU in accordance with SFFAS 3, *Accounting for Inventory and Related Property.* Upon receipt of EOU from other components or military services, the asset is recorded incorrectly as a gain rather than a transfer-in. Upon disposition of EOU, the expense is recorded incorrectly as a cost of goods sold rather than determining the gain or loss based on the difference of the sale price and Net Realizable Value (NRV) in accordance with SFFAS 3, *Accounting for Inventroy and Related Property*. The accounting treatment for both transfers-in and disposition of EOU is not in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.* The DLA WCF is unable to determine the carrying value of the inventory before it was identified as EOU inventory, in accordance with SFFAS 3, *Accounting for Inventory and Related Property.*

Raw Materials and Inventory Work in Process: The DLA WCF does not properly account for inventory provided to vendors against contracts and work orders for manufacturing and assembly in accordance with SFFAS 3, *Accounting for Inventory and Related Property.* These items should be initially accounted for as raw material, and then as inventory Work in Process.

Additional Inventory Costs: The DLA WCF does not properly account for additional inventory costs in the manufacturing and assembly process, in accordance with SFFAS 3, *Accounting for Inventory and Related Property.*

Categories of Inventory: The DLA WCF does not have policies and procedures in place for management's criteria to determine the category of inventory in accordance with SFFAS 3, *Accounting for Inventory and Related Property.*

Customer Direct: The DLA WCF does not record Customer Direct transactions in accordance with SFFAS 3, *Accounting for Inventory and Related Property.* DLA WCF combines the purchase from the vendor and the cost of goods sold into a single entry in the accounting system that does not include the receipt or issuance of inventory.

Goods Receipt: The DLA WCF does not have sufficient policies and procedures to properly account for receipts of goods when the quantity received does not match the purchase order quantity in accordance with SFFAS 3, *Accounting for Inventory and Related Property.* In addition, under the contractual agreement, if the contractor delivers and DLA WCF receives quantities of any item in excess of the quantities called for, DLA WCF may retain such excess quantities without compensating the contractor. Rather than adjusting the unit cost based on the updated quantity received, DLA WCF is recording a gain to account for the excess items.

General Property, Plant and Equipment, Net (Note 1.I and Note 6): The DLA WCF does not have policies and compliant processes in place to account for general Property, Plant, and Equipment (PP&E), net, at historical cost, in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment,* and SFFAS 10, *Accounting for Internal Use Software.* Supportable general PP&E beginning balances have not been established for buildings, general equipment, Construction in Progress (CIP), Internal Use Software (IUS), and IUS in Development using the alternative valuation methods permitted by SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment* (effective FY 2017). In addition, DLA WCF does not have compliant processes in place to account for impairment of facilities and equipment in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.* More specifically:

Transferred Assets: The DLA WCF is unable to determine the valuation of assets previously transferred to the military services in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment.*

Internal Use Software: The DLA WCF is unable to substantiate the valuation of internal use software in accordance with SFFAS 10, *Accounting for Internal Use*

Software, and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment.*

Internal Use Software in Development: The DLA WCF does not have the proper policies and compliant processes to identify IUS in Development balances in accordance with SFFAS 10, *Accounting for Internal Use Software.*

Construction-in-Progress Balances: The DLA WCF does not have the proper policies and compliant processes to identify aged CIP balances in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment.*

Capitalization: The DLA WCF does not properly follow the policies and procedures to effectively implement and consistently apply the capitalization threshold, in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment,* and SFFAS 10, *Accounting for Internal Use Software.*

Depreciation: The DLA WCF does not properly follow the policies and procedures to effectively implement and consistently apply depreciation and amortization, in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment,* and SFFAS 10, *Accounting for Internal Use Software*.

Rights and Obligations: The DLA WCF is unable to substantiate whether DLA WCF has the rights and obligations to the recorded general PP&E assets in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment.*

Leases (Note 1.J.): The DLA WCF does not have policies and compliant processes in place to identify, evaluate, record, and report leases in accordance with SFFAS 54, *Leases*, SFFAS 57, *Omnibus Amendments 2019*, SFFAS 60, *Omnibus Amendments 2021*: *Leases-Related Topics*, SFFAS 61, *Omnibus Amendments 2023: Leases-Related Topics II*, and SFFAS 62, *Transitional Amendment to SFFAS 54*.

Advances and Prepayments (Note 1.K.): The DLA WCF does not have policies and compliant processes in place to record advances and prepayments related to organic manufacturing and outstanding contract financing payments in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities.* Specifically, the accounts payable adjustment methodology for negative payables is inaccurate and does not comply with TFM/U.S. Standard General Ledger (USSGL) posting logic.

Accounts Payable, Expenses, and Undelivered Orders (Notes 1.M. and 1.S; Note 8; and Note 14): The DLA WCF does not have policies and compliant processes in place to account for accounts payable, expense accruals, and the related Undelivered Orders (UDOs) in accordance with SFFAS 1, *Ac-*

Delivery Ready

Army Lt. Col. Sarah Rabie, an obstetrician, and a Burundian obstetrician perform a cesarean section during a medical readiness exercise at the Military Hospital of Kamenge in Bujumbura, Burundi. The exercise is designed to enable military health professionals from the U.S. and their African partners to exchange medical practices, procedures and techniques that enhance treatment capabilities and result in lasting relationships between the participants. **Photo By: Army 1st Lt. Katherine Sibilla** *counting for Selected Assets and Liabilities*, and SFFAS 5, *Accounting for Liabilities of the Federal Government.* More specifically:

Accrual Methodology for Liabilities: The DLA WCF does not properly accrue liabilities in the period incurred, recognize the related expenses, and reduce UDOs in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government.*

Capitalized Expenses: The DLA WCF does not properly recognize in its accounting records the full cost of the goods or services it receives as an expense in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts.*

Negative Payable: The DLA WCF processes allow for payment without receipt, thus resulting in a negative payable that is not in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government.* This occurs when a payment is made prior to the goods receipts being posted in DLA WCF's accounting system. This results in an understatement of current year expenses and payables, and an overstatement of UDOs.

Undelivered Orders: The DLA WCF does not have sufficient policies and procedures in place to record obligations at the time contracts are awarded in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government.* In addition, DLA WCF is unable to support the UDO balance in the accounting system.

Right of Offsets: The DLA WCF does not have the proper policies and compliant procedures in place to evaluate whether a right of offsets exist within the contract agreements that will allow DLA to properly recognize assets and liabilities in accordance with Financial Accounting Standards Board Accounting Standards Codification 210.20, Balance Sheet- Off Setting, as prescribed by SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles,* Including the Application of Standards Issued by the Financial Accounting Standards Board.

Environmental and Disposal Liabilities (Note 1.N; Note 10; and Note 11): The DLA WCF does not have policies and compliant processes in place to reconcile asset listings to the amounts recorded for E&DL related to cleanup associated with general PP&E in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6*, Accounting for Property, Plant, and Equipment*.

Commitments and Contingencies (Note 1.L; Note 9; Note 10; and Note 11): The DLA WCF does not have policies and compliant processes in place to identify and account for contingent legal liabilities that should be recorded or disclosed in the financial statements in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government.*

Reconciliation of Net Cost to Net Outlays (Note 14): The DLA WCF does not have an established policy for the reconciliation of net cost to net outlays in accordance with SFFAS 53, *Budget and Accrual Reconciliation*. DLA WCF is also unable to fully prepare reconciliation of net cost to net outlays in conformity with U.S. GAAP due to limitations of financial and nonfinancial management processes and systems that support the underlying financial information.

Public-Private Partnerships: The DLA WCF has not completed analyzing all applicable business relationships to determine if these arrangements or transactions indicate the existence of Public-Private Partnership (P3) relationships, risk-sharing arrangements, or transactions lasting more than five years between public and private sector entities, in accordance with SFFAS 49, *Public-Private Partnerships: Disclosure Requirements* (effective FY 2019). As a result, DLA WCF is unable to determine the nature of such partnerships, if applicable, and related Federal funding amounts required to be disclosed in a P3 note to the financial statements.

D. Appropriations and Funding

Initial Corpus: The DLA WCF received its initial corpus through an appropriation from the Defense-Wide Working Capital Fund (DWWCF). The corpus financed initial operations to obtain goods and services sold to customers on a reimbursable basis to maintain the corpus. In addition, DLA WCF receives direct or supplemental appropriations through DoD reprogramming actions, Title V (Revolving and Management Funds), IX (Overseas Contingency Operations), and X (Required Additional Appropriations). For the year ended September 30, 2025, DLA WCF received direct appropriations in the amount of $2.3 million.

The DWWCF consists of six activity groups. DLA WCF operates three of the six activity groups, which include DLA Energy, DLA SCM, and DLA Document Services. DFAS and the Defense Information System Agency (DISA) operate the other three activity groups. DLA WCF is the cash manager for the DWWCF funding and is responsible for developing DWWCF activity group budget exhibits related to cash and monitoring cash execution. Although DLA WCF shares its accounting code with DFAS and DISA, each agency receives their own separate Annual Operating Budget.

Office of the Under Secretary of Defense (Comptroller) OUSD(C) uses a data element referred to as a 'limit' to differentiate the various ODOs under Treasury Index (TI)-97. DLA WCF uses limits assigned to the TI-97 organizations to track spending at a level below the Treasury Account Symbol (TAS) level.

Contract Authority: The DLA Energy and DLA SCM receive contract authority for their operating and capital programs. Typically, the Congress provides contract authority in an authorizing statute to allow DoD components to incur obligations in anticipation of the collection of receipts or offsetting collections that will be used to liquidate the obligations. Subsequently, the contract authority liquidates through the receipt of customer funds.

Spending Authority from Offsetting Collections: The DLA Document Services receives spending authority from offsetting collections, which requires the receipt of customer orders prior to incurring obligations.

E. Fund Balance with Treasury

The DLA WCF does not maintain cash in a commercial bank, but rather in the U.S. Treasury. DLA WCF's FBwT includes the amount available for DLA WCF to pay current liabilities and finance authorized purchases, except as restricted by law. The disbursing offices of DFAS, the U.S. Army Corps of Engineers, General Services Administration (GSA), and the Department of State's financial service centers process DLA WCF's cash collections, disbursements, and adjustments.

In recent years, DLA WCF implemented Treasury Direct Disbursing (TDD), which provides DLA WCF the capability to transmit directly from accounting systems to Treasury for disbursements. With the implementation of TDD, DLA WCF has a unique disbursing station symbol number (DSSN) allowing DLA WCF to identify the transactions.

On a monthly basis, DLA WCF adjusts its FBwT account balance to bring its cash balance in agreement with the U.S. Treasury cash balance reported on the Central Accounting and Reporting System (CARS) using the Cash Management Report (CMR). The CMR provides a summary cash position for each ODO's FBwT account by fiscal year and appropriation at the limit level. The adjustments represent the undistributed disbursements and collections amounts that have been reported to Treasury but have not yet been posted to DLA WCF's accounting systems, and vice versa. Undistributed amounts can be a result of timing, invalid line of accounting, invalid TAS information, and unsupported and unreconciled differences.

The DLA WCF's accounting service provider, DFAS, uses suspense accounts to hold transactions temporarily prior to identifying the correct funding. Suspense account items represent the amounts that are reported to U.S. Treasury at the TI Level (TI-17, TI-21, TI-57, TI-97), but have not yet been classified to a DLA WCF TAS. The transactions in suspense accounts include unidentified collections, disbursements, recyclable materials, and Intragovernmental payment and collection transactions at month end. DFAS researches suspense transactions to post them against the appropriate line of accounting. The current balances for DLA WCF suspense transactions are derived from the DFAS Suspense Account Universe of Transactions (UoT).

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. The current balances for DLA WCF SOD transactions are derived from DFAS management analysis and the SOD UoT.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Fund Balance with Treasury, and Note 2, *Fund Balance with Treasury*).

F. Accounts Receivable, Net

Accounts Receivable represent amounts due to DLA WCF from other Federal entities (Intragovernmental) and the public (Other than Intergovernmental). The DLA's accounts receivable arise from sales of inventory, services performed, and interest receivable.

The DLA WCF presents its accounts receivable net of an allowance for doubtful accounts, which is based on a systematic methodology of grouped aged public and Federal accounts receivables. The allowance for doubtful accounts is calculated based on the history of bad debt expense by fund type and aging category, with the exception of FEA accounts receivable, as these are reconciled in periodic settlements with the foreign governments (refer to Note 1.T, *Transactions with Foreign Governments and International Organizations*, for additional information on FEA sales and settlements).

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental and Other than Intragovernmental Transactions and Accounts Receivable, Net, Revenue, and Unfilled Customer Orders, Note 3, *Accounts Receivable, Net*.)

G. Other Assets

The DLA WCF other assets include the Strategic Petroleum Reserve. DLA Energy's Strategic Petroleum Reserve consists of crude oil held by the Department of Energy (DoE) on behalf of DoD. Public Law 102-396, Section 9149 enacted in November 1992 established the requirement for DoE to acquire and maintain a strategic petroleum reserve for National defense purposes. Section 9149 provided appropriations for the acquisition, storage, and drawdown of such reserve. Proceeds from sales of this reserve will be deposited to DoD's accounts and remain available until expended. DoE reports this crude oil in inventory in their financial statements, with an offsetting custodial liability to DoD. By law, the reserve cannot be drawn down or released to DoD without a Presidential Order along with the advice from the Secretary of War. As of September 30, 2025, none of the reserve has been drawn upon, therefore the full inventory remains on hand with DoE (Refer to Note 4, *Other Assets*).

H. Inventory and Related Property, Net

The DLA WCF inventory is comprised of material held at DLA Energy and DLA SCM and categorized into:

Inventory Held for Sale: Inventory in the process of

Troop Support Medical, VA Capital Equipment Joint Contract Program Exceeds Expectations

DLA Troop Support Medical and the Deptartment of Veteran Affairs are teaming up to improve healthcare delivery. This joint contract program speeds up medical equipment acquisition, benefiting veterans, Warfighters, & Federal agencies. **Photo By:** Mass Communication Specialist 3rd Class Raphael McCorey production for sale, inventory consumed in the production of goods for sale, or inventory used in the provision of services for a fee (refer to Note 1.A., *Reporting Entity,* for items held for sale by activity group). Additionally, DLA WCF has inventory held for sale that is in-transit. This consists of material being transported from commercial and Government suppliers to the financial reporting entity, as well as materials moving between storage locations.

DLA WCF receives transfers of Inventory Held for Sale from DLA GF. Under DoD policy, Financial Management Regulations (FMR) 7000.14-R Volume 4, Chapter 4, Inventory and Related Property, DLA WCF transfers these assets, without reimbursement, to the Military Departments upon request.

Inventory Held in Reserve for Future Sale: Inventory that is maintained and not readily available in the market or because there is more than a remote chance that they will eventually be needed (although not necessarily in the normal course of operations). Similar to the Inventory Held for Sale, the inventories primarily include weapon system repair parts from DLA Aviation and DLA Land and Maritime and food and medical supplies from DLA Troop Support.

Inventory Held for Repair: Inventory that is damaged and requires repairs to make it suitable for sale. These inventories primarily consist of consumable spares, repair parts, and repairable items.

Excess, Obsolete, and Unserviceable Inventory: Excess inventory is inventory stock that exceeds the demand expected in the normal course of operations. Obsolete inventory is inventory that is no longer needed due to changes in technology, laws, customs, or operations. Unserviceable inventory is damaged inventory that is more economical to dispose of than to repair. DLA Disposition is the primary DoD designated repository for all EOU from the Military Departments and other DLA operations.

Inventory Valuation: The DLA WCF uses the Moving Average Cost (MAC) method to value Inventory Held for Sale, Reserved for Future Sale, and Held for Repair, as described in SFFAS 3, *Accounting for Inventory and Related Property*, and DoD FMR, Volume 4, Chapter 4. Inventory Held for Repair is valued at MAC less an allowance for the estimated repair cost. The allowance is calculated based on 2.0% of the total value of Inventory Held for Repair. The MAC is calculated each time inventory is purchased dividing the total cost of units available by the number of total units available.

EOU inventory is valued at its expected NRV. An NRV factor is applied to the assets' original acquisition value to determine NRV. The FY 2025 NRV calculation resulted in an NRV of zero as of September 30, 2025.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Inventory and Related Property, Net, and Note 5, *Inventory and Related Property, Net*.)

I. General Property, Plant and Equipment, Net

The DLA WCF general PP&E consists of CIP, IUS, IUS in development, and general equipment that are used to facilitate the Agency's mission. The real property or land where these assets are located are not managed or reported by DLA WCF. DoD FMR 7000.14-R Volume 4, Chapter 24, assigns financial reporting responsibility of DoD real property to the Military Department with jurisdiction over the facilities. In FY 2020, DLA WCF transferred real property assets to the Military Departments and is in process of establishing Memorandum of Agreements (MOAs) with the Military Departments for DLA WCF's use of the real property and the recording of related imputed costs and Deferred Maintenance & Repairs, in accordance with DoD policy.

PP&E Valuation: DLA WCF has not yet finalized the physical inventory and valuation process for general PP&E. The DLA WCF continues to validate its general PP&E balances by: 1) verifying the existence and completeness of assets, 2) validating documentation from the military services to confirm rights and obligations and ensure DLA WCF is the appropriate Financial Reporting Organization (FRO), and 3) updating policy and documenting processes over the valuation methodology. Accordingly, DLA WCF has not made an unreserved assertion that the opening balances of general PP&E for FY 2025 are presented fairly in accordance with U.S. GAAP and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*.

Capitalization Threshold: The DLA WCF general PP&E assets are recorded at historical acquisition cost plus improvements when an asset has a useful life of two or more years, and the acquisition cost exceeds the $250,000 capitalization threshold, effective October 1, 2013. The general PP&E assets acquired prior to October 1, 2013, were capitalized at various thresholds and are carried at the remaining net book value. However, some of the assets capitalized after October 1, 2013, do not exceed the $250,000 capitalization threshold.

The DLA WCF determines the useful life of its general PP&E using the asset classification and the type of assets based on the DoD FMR 7000.14-R Volume 4, Chapters 24, 25, 27 and the OUSD Memorandum *"Financial Reporting Policy for Real Property Estimated Useful Lives, Land Valuation, and Accounting for Real Property Outside of the United States."* (Refer to Figure 9.)

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net; Note 1.N., *Environmental and Disposal Liabilities*; and Note 6, *General Property, Plant, and Equipment, Net*.)

J. Leases

For FY 2025, DLA WCF does not have policies and compliant processes in place to identify, evaluate, record, and report leases in accordance with SFFAS 54, Leases, SFFAS 57, *Omnibus Amendments 2019*, SFFAS 60, *Omnibus Amendments 2021*: Leases-Related Topics, SFFAS 61, *Omnibus Amendments 2023: Leases-Related Topics II, and SFFAS 62, Transitional Amendment to SFFAS 54*.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Leases.)

K. Advances and Prepayments

Advances: Assets, such as civil service employee pay and travel advances, and certain contract financing payments not reported elsewhere in DLA WCF Balance Sheet.

The DLA SCM conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, DLA WCF may provide financing payments. The Federal Acquisition Regulation, Part 32, defines contract financing payments as "authorized Government disbursements of monies to a contractor prior to acceptance of supplies or services by the Government".

Prepayments: Payments made in advance of the receipt of goods and services. DLA WCF's policy is to expense and/or properly classify assets when the related goods and services are received.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Advances and Prepayments.)

L. Commitments and Contingencies

In accordance with SFFAS 5, *Accounting for Liabilities*

Depreciation Method and Useful Life

Asset Classes	Depreciation/Amortization Method	Useful Life (Years)
IUS	Straight-Line	2, 5 or 10
General Equipment	Straight-Line	5 or 10
CIP	Not Applicable	Not Applicable
IUS in development	Not Applicable	Not Applicable

Figure 9: Depreciation Method and Useful Life

of the Federal Government, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government,* DLA WCF evaluates all contingent liabilities based on three criteria: probable, reasonably possible, and remote. DLA WCF recognizes contingent liabilities in DLA WCF's Balance Sheet and Statement of Net Cost when the loss is determined to be probable and reasonably estimable. DLA WCF discloses those contingencies that are reasonably possible in Note 11, *Commitments and Contingencies.* DLA WCF 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 the 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 of the range is recorded, and both the range and a description of the nature of the contingency are disclosed.

Environmental Contingencies: The DLA WCF has developed a process to identify, estimate, and record contingent E&DL. DLA WCF does not estimate a potential range of loss in this process. Where DLA WCF is aware of probable and measurable future outflow of resources due to a past event or exchange transaction, the appropriate program categories are reported in Note 10, *Environmental and Disposal Liabilities*.

Legal Contingencies: For legal contingency matters 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 of the legal contingent liabilities may be payable from the U.S. Treasury.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Commitments and Contingencies; Note 1.R., *Revenue and Other Financing Sources Exchange and Non-Exchange Revenue* related to Imputed Financing and Imputed Costs*;* Note 9, *Other Liabilities;* Note 10, *Environmental and Disposal Liabilities*; and Note 11, *Commitments and Contingencies.*)

M. 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.

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 dates. 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 7, *Liabilities Not Covered by Budgetary Resources*).

Liabilities not Requiring Budgetary Resources: Liabilities that have not in the past required and will not in the future require the use of budgetary resources are referred to as liabilities not requiring budgetary resources (refer to Note 7, *Liabilities Not Covered by Budgetary Resources*).

Current and Noncurrent Liabilities: The DLA WCF discloses its other liabilities between current and noncurrent liabilities in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities.* The current liabil-

Teamwork
The DLA Innovation Navigators course is a three-day program designed to equip leaders within the Defense Logistics Agency (DLA) with the tools and processes needed to foster innovation within their organizations. The course, created by DLA Research and Development's Technology Accelerator Team, helps participants address common challenges, break down silos, and collaboratively seek innovative solutions. Over 120 employees have completed the course since Nov. '22. **Photo by:** DLA

ities represent liabilities that DLA WCF expects to be paid within a year of the Balance Sheet dates. Noncurrent liabilities represent liabilities that DLA WCF does not expect to be paid within a year of the Balance Sheet dates (refer to Note 9, *Other Liabilities*).

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 WCF. DLA WCF estimates and records accruals when services are performed or goods are received (i.e., MOCAS accrual related to contract financing). Negative Payables occur when a payment is made prior to the goods receipts being posted in DLA WCF's accounting system. The DLA WCF also accrues liabilities incurred at month-end but not yet recorded using data from Third Party Payment Systems, GPCs, various feeder systems, and estimates of costs incurred when goods or services are received but not invoiced.

N. Environmental and Disposal Liabilities

E&DL are a 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.

The DLA WCF 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. The DLA identifies and estimates accrued E&DL through its annual Cost-To-Complete (CTC) process. The DLA'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 contract 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.

The DLA WCF reports corrective action related E&DL in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and Federal Financial Accounting and Auditing Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.*

On September 29, 2022, the OUSD(C) issued a Financial Reporting of Environmental and Disposal Liabilities memorandum, which concluded that the Military Departments are responsible for reporting the entirety of E&DL associated with real property located on their installations for closure liabilities based on FASAB Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6* and the DoD FMR 7000.14-R Volume 4, Chapter 13, *Environmental and Disposal Liabilities.* In FY 2023, DLA jointly signed a Memorandum for Record, with each Military Service acknowledging their responsibility for the reporting of E&DL associated with real property.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Commitments and Contingencies; Note 1.I., *General Property, Plant and Equipment;* Note 10, *Environmental and Disposal Liabilities;* and Note 11, *Commitments and Contingencies.*)

O. Federal Employee Benefits Payable and Related Other Liabilities

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 dates. DLA WCF 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 8, *Federal Employee Benefits Payable and Related Other Liabilities*).

FECA: 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 the DOL, which pays valid claims and subsequently seeks reimbursement from DLA WCF 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 WCF. DLA WCF 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 WCF. As a result, DLA WCF recognizes an Intragovernmental Other Liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by DLA. (Refer to Note 7, *Liabilities Not Covered by Budgetary Resources,* and Note 8, *Federal Employee Benefits Payable and Related Other Liabilities.*)

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 were estimated using historical incurred benefit liabilities and payments.

(Refer to Note 7, *Liabilities Not Covered by Budgetary Resources,* and Note 8, *Federal Employee Benefits Payable and Related Other Liabilities.*)

P. Pension Benefits

Based on the effective Federal government start date, DLA WCF's civilian employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees 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 applies to calculate and recognize imputed costs, as reported in its Statement of Net Cost, and a corresponding imputed financing sources in the Statement of Changes in Net Position. DLA WCF 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.R., *Revenue and Other Financing Sources Exchange and Non-Exchange Revenue* related to Imputed Financing and Imputed Cost.)

Q. 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 consist of unobligated and undelivered order balances. Unobligated balances are amounts of remaining budgetary resources available for obligation, which have not been rescinded or withdrawn. Undelivered orders are the amount of obligations incurred for goods and/or services ordered, but not yet received. DLA WCF's unexpended appropriations primarily consist of supplemental appropriations and overseas contingency operations.

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.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Net, Revenue, and Unfilled Customer orders and Accounts Payable, Expenses, and Undelivered Orders, and Note 13, *Statement of Budgetary Resources.*)

R. Revenue and Other Financing Sources Exchange and Non-exchange Revenue

The DLA WCF classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises when DLA WCF provides goods or services to Intragovernmental or Other than Intragovernmental entities in exchange for inflows of resources. Exchange revenue is presented in the Statement of Net Cost and serves to offset the costs of these goods and services.

The DLA WCF activities recognize exchange revenue from the sale of petroleum products from DLA Energy, weapon system repair parts from DLA Aviation and DLA Land and Maritime, food and medical supplies from DLA Troop Support, eligible DoD excess personal property or its residual materials from DLA Disposition Services disposal operations, or from the reimbursements for goods and services provided to other DoD activities, other Federal agencies and the public. DLA Distribution provides storage and distribution solutions/management, transportation planning/management and logistics planning, and contingency operations. The sale of materials includes DLA WCF's Direct sales and Customer Direct sales. DLA WCF's Direct sales are from DLA

DoD Maintenance Symposium

Salt Palace Convention Center, Salt Lake City, UT. The Symposium is the premier forum for the exchange of ideas from the greatest #maintenance and logistics minds in the country as participants discuss the pacing national security threats to the sustainment enterprise. **Photo By:** DLA

WCF stock to the customer, whereas Customer Direct sales are from the vendor directly to the customer.

Non-exchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. DLA WCF non-exchange revenue includes interest penalties and administrative fees. Non-exchange revenue is considered to reduce the cost of DLA WCF's operations and is reported in the Statement of Changes in Net Position as a financing source.

DLA Energy Standard Fuel Price: The DLA WCF uses a SFP per barrel of fuel sold to customers to include DoD, U.S. Coast Guard, and Foreign Governments. Based on OUSD(C) direction, the following SFPs were set during FY 2025:

Effective Date	SFP per Barrel
October 1, 2024	$168.84
April 1, 2025	$138.18

The DLA WCF is responsible for recommending a SFP to OUSD(C). In the process of determining the recommended SFP, DLA WCF considers the amount necessary to recover the cost of the products and services. Upon receiving DLA WCF's proposed SFP, OUSD(C) performs an evaluation of the proposed SFP and determines the final SFP that DLA WCF is required to use for DLA WCF Energy sales.

OUSD(C) sets the final SFP based on OMB derived product assumptions and approved non-product costs for DLA Energy.

DLA Energy Cost Plus: Federal civilian agencies and other authorized customers are charged cost plus as follows: (1) for Customer Direct sales, customers are charged the acquisition cost of fuel billed to DLA Energy by the vendor on the day of delivery plus the cost-plus rate; and (2) for DLA Direct Sales, customers are charged the average acquisition cost of fuel plus the cost-plus rate. The cost-plus rate for FY 2025 is $0.08 cents per gallon.

Supply Chain Cost Recovery Rate (CRR): The DLA WCF establishes the selling price in two separate methods depending on the type of items. For non-National Stock Numbers (NSNs), which include part numbers, local stock numbers or service materials as described in a vendor's product catalog or contract solicitation that a customer can order, the selling price is based on latest acquisition cost plus a CRR. The latest acquisition cost is the cost of acquiring the goods and services. The CRR is a percentage added to the acquisition cost that allows DLA WCF to recover the full cost of the goods and services provided, including depreciation of capital assets, in accordance with U.S. Code Title 10, § 2208.

For NSNs, a standard price is established annually. The selling price is based on the average acquisition cost over the course of the previous twelve months, other material cost (e.g., testing, transportation, etc.) and the CRR.

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. The DLA WCF's other financing sources come from unexpended appropriation transfers-in and non-expenditure transfers-in initiated by OUSD and are recognized as financing sources when used. Other financing sources also include: (1) transfers-in/out without reimbursement; and (2) imputed financing with respect to costs subsidized by another Federal entity.

Transfers-In/Out Without Reimbursement: Transfers-in/out without reimbursement include Intragovernmental transfers of capitalized assets. The amount of the transfer is the book value of the transferring entity and if the book value is not known, the amount is the estimated fair value at the date of transfer.

Imputed Financing and Imputed Cost: In certain cases, DLA WCF 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 WCF, are recognized as imputed cost in the Statement of Net Cost and are offset by imputed financing in the Statement of Changes in Net Position. DLA WCF 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, and life insurance benefits); and (2) claims settled by the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in DLA WCF financial statements.

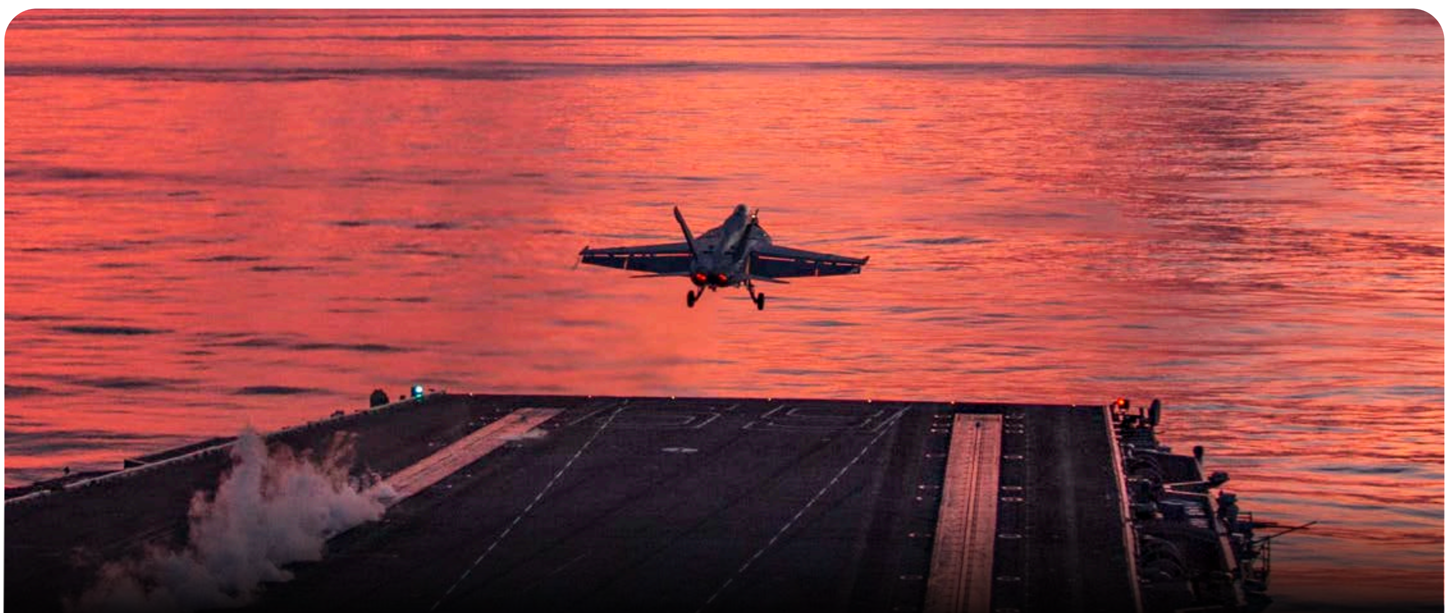
(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Inter-Entity Cost; Accounts Receivable, Net; Revenue, and Unfilled Customer Orders and Inventory and Related Property, Net; Note 1.L., *Commitments and Contingencies*; Note 1.P., *Pension Benefits;* Note 3, *Accounts Receivable, Net;* Note 5, *Inventory and Related Property, Net;* and Note 12, *Exchange Revenue.*)

S. Expenses

Expenses are recognized when there are outflows, usage of assets, or incurrences of liabilities (or a combination) from carrying out functions related to DLA WCF's activity groups, for which benefits do not extend beyond the present operating period. For financial reporting purposes, operating expenses are recognized in the period incurred (refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders).

T. Transactions with Foreign Governments and International Organizations

The DLA WCF sells defense articles and services to foreign governments and international organizations. Foreign Military Sales (FMS) are governed under the provisions of the Arms Export Control Act of 1976.



Meeting the Demands of Modern Warfare

An F/A-18E Super Hornet attached to the "Wildcats" of Strike Fighter Squadron (VFA) 131 launches from the flight deck aboard the Nimitz-class aircraft carrier USS Dwight D. Eisenhower (CVN 69). But before the any Super Hornet could be sent to the fleet Naval Air Warfare Center Aircraft Division at Patuxent River, Maryland put the aircraft through extensive testing, using equipment they acquired from DLA Disposition Services. **Photo by:** U.S. Navy Mass Communication Specialist 3rd Class Cameron Pinske

Note 2: Fund Balance with Treasury (Unaudited)

Fund Balance with Treasury as of September 30, 2025, consists of the following (dollars in thousands)

		FY 2025
Status of Fund Balance with Treasury		
Unobligated Balance	$	507,132
Obligated Balances Not Yet Disbursed		2,462,188
Total Fund Balance with Treasury	**$**	**2,969,320**

Status of Fund Balance with Treasury presents the budgetary and proprietary resources that constitute DLA WCF FBwT. It consists of unobligated and obligated balances. Unobligated and obligated balances differ from the related amounts reported in the Combined Statement of Budgetary Resources because budgetary balances are supported by amounts other than FBwT (e.g., contract authority and budgetary receivables).

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and can be used for future obligations. The unavailable balance includes the cumulative amount of budget authority and funds not available for obligation from offsetting collections. As of September 30, 2025, DLA WCF does not have an unobligated unavailable balance.

Obligated Balance Not Yet Disbursed represents 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 budget authority and non-budgetary FBwT such as non-fiduciary deposit funds. As of September 30, 2025, DLA WCF does not have non-budgetary FBwT.

Other Information includes the following table summarizing the undistributed collections and disbursements between U.S. Treasury and DLA WCF as of September 30, 2025:

FY 2025 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)

Transaction Type	Treasury Balance based on CMR	DLA WCF Trial Balance	Balances Not Yet Recorded in DLA Accounting System - Undistributed
Collections	$51,429,414	$51,413,112	$16,301
Disbursements	$51,945,833	$52,063,530	$(117,697)

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Fund Balance with Treasury.)

Note 3: Accounts Receivable, Net (Unaudited)

Accounts Receivable, Net as of September 30, 2025, consists of the following (dollars in thousands):

	FY 2025		
	Accounts Receivable	**(Less: Allowance for Doubtful Accounts)**	**Accounts Receivable, Net**
Intragovernmental Accounts Receivable, Net			
Energy	$ 201,488	$ (1,419)	$ 200,069
Supply Chain Management	2,066,721	(50,395)	2,016,326
Document Services	34,128	(2,535)	31,593
Total Intragovernmental Accounts Receivable, Net	**$ 2,302,337**	**$ (54,349)**	**$ 2,247,988**
Other than Intragovernmental Accounts Receivable, Net			
Energy	$ 223,243	$ (24,121)	$ 199,122
Supply Chain Management	625,353	8	625,361
Document Services	1,417	(96)	1,321
Total Other than Intragovernmental Accounts Receivable, Net	**$ 850,013**	**$ (24,209)**	**$ 825,804**

Of the Total Other than Intragovernmental Accounts Receivable, Net, criminal restitutions, net consist of $12.5 million as of September 30, 2025. The gross amount of criminal restitutions consists of $14.6 million with a related allowance of doubtful accounts of $2.1 million as of September 30, 2025.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Net, Revenue, and Unfilled Customer Orders.)

Meeting the Demands of Modern Warfare
A line of U.S. Army M2A3 Bradley Fighting Vehicles operated by soldiers assigned to Charlie Company, 1st Battalion, 64th Armored Regiment, 1st Armored Brigade Combat Team, 3rd Infantry Division, drive to their objective point for a training mission in July. **Photo by:** U.S. Army Staff Sgt. Christopher Saunders

Note 4: Other Assets (Unaudited)

Other Assets as of September 30, 2025, consists of the following (dollars in thousands):

		FY 2025
Intragovernmental Other Assets		
Other Assets	$	123,306
Total Intragovernmental Other Assets		**123,306**
Total Other Assets	**$**	**123,306**

Intragovernmental Other Assets consist of Strategic Petroleum Reserve for National Defense purposes. This includes crude oil held by the DoE on behalf of the DoD. The Strategic Petroleum Reserve is valued at historical acquisition cost.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Leases.)

Note 5: Inventory and Related Property, Net (Unaudited)

Inventory and Related Property, Net as of September 30, 2025, consist of the following (dollars in thousands):

			FY 2025
	Valuation Method		
Inventory Categories:			
Inventory Purchased for Resale	MAC	$	16,308,608
Inventory in Reserve for Future Sale to the Public	MAC		6,725,245
Inventory Held for Repair	MAC		111,189
Less: Allowance for Repairs			(2,224)
Total Inventory and Related Property, Net		**$**	**23,142,818**

MAC = Moving Average Cost

As of September 30, 2025, DLA SCM is holding $186.2 million of inventory not available for sale due to litigation. All inventory identified as EOU has an expected NRV of $0 as of September 30, 2025.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Inter-Entity Cost and Inventory and Related Property, Net.)

Note 6: General Property, Plant and Equipment, Net (Unaudited)

General Property, Plant and Equipment, Net as of September 30, 2025, consist of the following (dollars in thousands):

	Depreciation/ Amortization Method	Useful Life (Years)	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
					FY 2025
Major Asset Classes:					
Internal-Use Software	S/L[11]	2, 5, or 10	849,885	(763,994)	85,891
General Equipment	S/L	5 or 10	571,595	(433,622)	137,973
Internal-Use Software in Development	N/A	N/A	41,066	-	41,066
Construction-in-Progress	N/A	N/A	628,103	-	628,103
Total General PP&E, Net			**$ 2,090,649**	**$ (1,197,616)**	**$ 893,033**

S/L = Straight Line N/A = Not Applicable

Software primarily consists of e-Procurement software, Risk Based Inspection software, and Defense Agencies Initiative (DAI) software. General Equipment primarily consists of fuel handling systems, conveyor systems, scrap shredders, and electronic security systems. The table below discloses activity for General Property, Plant and Equipment, Net as of September 30, 2025, consist of the following (dollars in thousands):

	FY 2025
General PP&E, Net - Beginning Balances	**$ 885,433**
Capitalized Acquisitions	160,791
Dispositions	(47,108)
Depreciation	(87,624)
Transfers in/out without reimbursements	(18,459)
General PP&E, Net - Ending Balances	**$ 893,033**

DoD's policy regarding real property is that it must be reported in the financial statements of the military service that is the Installation Host having jurisdiction of the real property asset.

In FY 2025, DLA WCF transferred 27 real property assets in the amount of $22.3 million to the military services. This amount consisted of an acquisition value of $22.3 million and no accumulated depreciation.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net, and Leases.)

[11] Estimated useful service life of capitalized IUS is determined during the planning phase of IUS development and is based on how long the IUS is expected to provide economic benefit or service potential to the Department. Estimated useful service life of licensed IUS is the term of the license agreement, or 5 years for perpetual licenses.

Note 7: Liabilities Not Covered by Budgetary Resources (Unaudited)

Liabilities Not Covered by Budgetary Resources as of September 30, 2025 consist of the following (dollars in thousands):

		FY 2025
Intragovernmental Liabilities		
Other Liabilities - Benefits Contributions Payable	$	19,372
Total Intragovernmental Liabilities		**19,372**
Other than Intragovernmental Liabilities		
Environmental and Disposal Liabilities		226,247
Pensions and Other Post-Employment Benefits Payable		166,922
Other Liabilities		5,090
Total Other than Intragovernmental Liabilities		**398,259**
Total Liabilities Not Covered by Budgetary Resources		**417,631**
Total Liabilities Covered by Budgetary Resources		**3,448,655**
Total Liabilities	**$**	**3,866,286**

Other Liabilities - Benefits Contributions Payable (Intragovernmental) consist of unfunded accrued FECA liability based on DOL records.

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.

Pensions, other Post Employment and other Veterans Benefits Payable (Other than Intragovernmental) is comprised of FECA actuarial liability based on DOL records.

Other Liabilities (Other than Intragovernmental) are comprised of current contingent legal liabilities.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders; and Commitments and Contingencies; Note 8, *Federal Employee Benefits Payable and Related Other Liabilities*; Note 10, *Environmental and Disposal Liabilities*, and Note 11, *Commitments and Contingencies*.)

Note 8: Federal Employee Benefits Payable and Related Other Liabilities (Unaudited)

Federal Employee Benefits Payable and Related Other Liabilities as of September 30, 2025, consist of the following (dollars in thousands):

	FY 2025		
	Liabilities	**Funded Liabilities**	**Unfunded Liabilities**
Intragovernmental Other Liabilities			
Employer Contributions and Payroll Taxes Payable	$ 21,182	$ (21,182)	$ -
Unfunded FECA Liability	19,372	-	19,372
Other Post Employment Benefits Due and Payable	470	(470)	-
Total Intragovernmental Other Liabilities	**$ 41,024**	**$ (21,652)**	**$ 19,372**
Other than Intragovernmental Federal Employee Benefits Payable			
Employer Contributions and Payroll Taxes Payable	13,329	(13,329)	-
Accrued Funded Payroll & Leave	256,051	(256,051)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	**$ 269,380**	**$ (269,380)**	**$ -**
Pensions and Other Post-Employment Benefits Payable			
Actuarial FECA Liability	$ 166,922	$ -	$ 166,922
Total Pensions and Other Post-Employment Benefits Payable	**$ 166,922**	**$ -**	**$ 166,922**

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 WCF.

Other Post Employment Benefits Due and Payable (Intra-governmental) consists of intragovernmental liabilities for unemployment compensation.

Actuarial FECA Liability (Other than Intragovernmental) are workers' compensation benefits developed by the DOL's Office of Worker's Compensation Programs (OWCP) and provided to DLA WCF 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 economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of Living Adjustments (COLAs) and medical inflation factors are also applied to the calculation of projected future benefits.

Accrued Funded Payroll and Leave (Other than Intra-governmental) include salaries, wages, and other compensation earned by employees but not yet disbursed.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders; and Note 7, *Liabilities Not Covered by Budgetary Resources*.)

Note 9: Other Liabilities (Unaudited)

Other Liabilities for the year ended September 30, 2025, consist of the following (dollars in thousands)

	FY 2025		
	Current	Non-Current	Total
Intragovernmental Other Liabilities			
Other Liabilities - Benefit Contributions Payable	36,786	4,238	41,024
Total Intragovernmental Other Liabilities	**$ 36,786**	**$ 4,238**	**$ 41,024**
Other than Intragovernmental Other Liabilities			
Contingent Liabilities	5,090	-	5,090
Total Other than Intragovernmental Other Liabilities	**$ 5,090**	**$ -**	**$ 5,090**

Other Liabilities - Benefit Contributions Payable (Intragovernmental) represents the total of Employer Contributions and Payroll Taxes Payable, Unfunded FECA Liability, and Other Post Employment Benefits Due and Payable.

Contingent Liabilities (Other than Intragovernmental) are amounts estimated based on the outcome of a future event. The reported losses are assessed as probable and are associated with litigation (refer to Note 11, *Commitments and Contingencies*).

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders; and Commitments and Contingencies, and Note 11, *Commitments and Contingencies*.)

Meeting the Demands of Modern Warfare

A U.S. Air Force B-2 Spirit prepares for landing at Whiteman Air Force Base, Missouri, in June of 2025. The B-2 is a multi-role 'stealth' bomber that delivers both conventional and nuclear munitions. DLA Land and Maritime directly supports nearly 26,000 parts for the B-2 Spirit. **Courtesy Photo**

Note 10: Environmental and Disposal Liabilities (Unaudited)

Environmental and Disposal Liabilities as of September 30, 2025, consist of the following (dollars in thousands):

	FY 2025
Environmental and Disposal Liabilities	
Other Accrued Environmental Liabilities - Non-Base Realignment and Closure (BRAC):	
Environmental Corrective Action	$ 323,547
Total Environmental and Disposal Liabilities	**$ 323,547**

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

In FY 2025, DLA WCF utilized the Remedial Action Cost Engineering and Requirements (RACER) software to generate the CTC estimates of anticipated future costs. DLA WCF includes E&DL for environmental corrective action sites under both DLA Energy and Non-Energy management.

As of September 30, 2025, the total E&DL consists of $323.5 million.

Per DoD policy and FASAB guidance, specifically DoD 7000.14-R FMR Volume 4 Chapter 13 – Environmental and Disposal Liabilities (June 2024), FASAB Interpretation of Federal Financial Accounting Standards 9, Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6, Military Departments are responsible for reporting the entirety of E&DL associated with real property located on their installations for Environmental Closure Requirements and Asbestos E&DL. Accordingly, as of September 30, 2025, DLA WCF has no reportable Environmental Closure Requirements and Asbestos E&DL.

Types of Environmental Liabilities and Disposal Liabilities: The DLA WCF is responsible for the recognition, measurement, reporting, and disclosure of Non-BRAC E&DL. Non-BRAC E&DL are specifically related to past and current installation restoration activities and operations. All clean-up and disposal actions are conducted in coordination with regulatory agencies, other responsible parties, and current property owners.

The DLA WCF reportable E&DL is under Other Accrued E&DL – Non-BRAC and includes the following line item:

Environmental Corrective Action: E&DL associated with the cleanup sites not eligible for DERP funding, typically conducted under Resource Conservation and Recovery Act (RCRA) or other Federal or State statutes and regulations.

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

Applicable Laws and Regulations for Cleanup Requirements: The DLA WCF 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 WCF is required to comply with the following laws and regulations for Corrective Actions, 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 as mentioned above. Required cleanup may at times extend beyond Installation boundaries onto privately owned property or onto sites where DLA WCF is named as a potentially responsible party by a regulatory agency. DLA WCF reports corrective action related E&DL in accordance with SFFAS 5: Accounting for Liabilities of the Federal Government and Federal Financial Accounting and Auditing Technical Release 2: Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods: To estimate future environmental costs, DLA WCF utilizes a combination of historical or pre-negotiated contract costs, proposal costs, engineering estimates, and in the absence of other detailed information, parametric estimates created using the RACER software. Any historical costs used in the creation of the estimates for DLA WCF E&DL are adjusted for inflation and reported in current year dollars. The RACER Steering Committee ensures that the RACER software is Validated, Verified, and Accredited (VV&A) in accordance with DoD Instruction 5000.61, DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation. The DoD is working with the RACER Steering Committee and stakeholders to identify improvements to RACER functionality, auditability, and documentation.

Nature of Estimates and Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations: The DLA E&DL Site Identification (ID) process tracks environmental events such as spills and releases in an Environmental Event Repository and evaluates each event annually for E&DL potentiality to determine the annual CTC inventory. DLA WCF E&DL estimates are created and updated annually, and are updated as of September 30, 2025. Processes are conducted in accordance with DLA ELM SOPs and the DoD 7000.14-R FMR Volume 4, Chapter 13 – *Environmental and Disposal Liabilities* (June 2024).

DLA WCF CTC estimates are recognized as of September 30, 2025. As of the reporting date, material changes were identified in the total estimated cleanup costs from the prior year due to changes in laws and regulations, technology, or plans. E&DL estimates are 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 WCF E&DL includes prior year obligations and the estimate of future costs necessary to complete requirements. DLA WCF has instituted extensive controls to ensure that these estimates are accurate and reproducible. The cost estimates produced through the Environmental Liabilities Management 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 costs may materially vary from the accounting estimates if agreements with regulatory agencies require remediation or closure activities to a different degree than anticipated when calculating the estimates. WCF E&DL can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimated parameters.

The DLA 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 Environmental Corrective Action E&DL balance.

Red Hill Bulk Fuel Storage Tank Facility

The Red Hill Underground Bulk Fuel Storage Tank Facility is located on the Island of Oahu, Hawaii, and consists of twenty steel-lined concreted tanks encased in concrete built into cavities mined inside Red Hill during the period immediately preceding World War II.

On November 20, 2021, an incident occurred in which fuel was released into the environment and migrated into the Red Hill well, contaminating the water supply for Joint Base Pearl Harbor Hickam. On August 31, 2022, the DoD issued a Report on Red Hill Response Cost Projections to inform Congress of DoD's known and projected costs to defuel and permanently close the storage tank facility to comply with the State of Hawaii Department of Health (DOH) order and protect the health and safety of the local population. The cost projections to date reflect ongoing DoD conferrals with the Hawaii DoH and the Environmental Protection Agency. The complete array of associated closure requirements and parameters for the Facility is still being determined, as tank and facility closure activities are ongoing.

As of September 30, 2025, DLA has obligated $1.5 billion for defueling, facility closure, and fuel dispersal. Costs to date reflect operational closure activities and not environmental remediation costs, and are not E&DL. Environmental Corrective Actions required to clean up prior petroleum releases (event-driven liability) at the Red Hill facility are currently unknown. Response to the 2021 incident will continue to be tracked as a Potential Out-Year E&DL until environmental investigations have been completed and a path forward to obtain regulatory closure of the facility can be determined. The Department of the Navy is responsible for reporting E&DL associated with Tank Closure, including cleaning of tanks and pipelines, disposal of sludge and waste, tank closure alternatives analysis, and as necessary, infrastructure disposition waste, tank closure alternatives analysis, and as necessary, infrastructure disposition.

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

Cleanup Costs Associated with Overseas Environmental Liabilities: Total overseas cleanup E&DL includes four environmental corrective action sites at three installations across two countries/territories.

Non-Legal Environmental and Disposal Contingencies: Related Non-Legal Environmental and Disposal Contingencies are disclosed in Note 11, *Commitments and Contingencies*.

(Refer to Note 1.C., *Departures from U.S. GAAP,* related to Environmental and Disposal Liabilities, and Note 1.N., *Environmental and Disposal Liabilities*.)

Defense Microelectronics
Did you know DLA was crucial in establishing the Defense Microelectronics Activity in 1997? After a 1996 memo, DLA helped transfer the Microelectronics Center to the Deputy Undersecretary of Defense for Logistics, providing essential support.
Photo By: DLA

Note 11: Commitments and Contingencies (Unaudited)

Accrued and reasonably possible legal and environmental contingent liabilities as of September 30, 2025, consist of the following (dollars in thousands):

	FY 2025					
	Accrued Liabilities		Estimated Range of Loss			
			Lower End		Upper End	
Legal Contingencies						
Probable	$	5,090	$	5,090	$	27,133
Reasonably Possible			$	454	$	268,215
Environmental Contingencies						
Probable	$	323,547	$	-	$	-
Reasonably Possible			$	-	$	-

Legal Contingencies: The DLA WCF is a party in various administrative proceedings and legal actions related to claims for environmental damages, equal opportunity matters, employee or applicant related matters, contract related matters, and contractual bid protests. The DLA's Enterprise Workflow Support Capability (EWSC) is used by the Office of General Counsel to report the outcomes and possible liability amounts of open cases.

The DLA WCF did not identify a specific amount within the range of estimated amounts and has accrued the lower end of the range for probable contingent liabilities. Probable contingent liabilities are legal actions where the Office of General Counsel considers an adverse decision probable, and the amount of loss is estimable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. DLA WCF records contingent liabilities (refer to Note 9, *Other Liabilities*) within Other Liabilities in the Balance Sheet.

Cases for which legal counsel determines an adverse outcome is reasonably possible and the possible financial outflow is measurable, are not recorded, but disclosed as reasonably possible for financial reporting purposes.

Of the 142 legal matters classified as "Reasonably Possible", there are 13 matters where DLA Counsel is unable to express an opinion regarding the likely outcome of the case and an estimate of the potential liability cannot be made. In these 13 matters, the total claimed against the government is $2.5 million.

Environmental Contingencies: The DLA WCF has developed a process to identify, estimate, and record contingent E&DL. The WCF does not estimate a potential range of loss in this process. Where DLA WCF is aware of probable and measurable future outflow of resources due to a past event or exchange transaction, the appropriate program categories are reported in Note 10, *Environmental and Disposal Liabilities*.

Potential Loss Related to Economic Price Clause Contracts: The DLA WCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. DLA WCF has limited automated system processes by which it captures or assesses these potential liabilities; therefore, the amounts reported may not fairly present DLA WCF's total contingent liabilities. Known contingencies that are considered both measurable and probable have been recognized and recorded as liabilities in the Balance Sheet. DLA WCF does not have contract financing payment contingencies as of September 30, 2025.

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

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities; and Commitments and Contingencies, Note 9, *Other Liabilities*; and Note 10, *Environmental and Disposal Liabilities*.)

UK and Army Reserve Practice Fueling Operations
U.S. Army Reserve Soldiers from the 419th Transportation Company deliver fuel during the U.S. Army Reserve's Quartermaster Liquid Logistics Exercise. Photo courtesy of DLA Energy Americas. **Photo by:** DLA

Note 12: Exchange Revenue (Unaudited)

The DLA WCF pricing policy for SCM and Energy Management is to seek full cost recovery for products and services provided. These DLA WCF activities maintain the goal to breakeven over a single-year or two-year period; however, the SCM may request a waiver from the OUSD(C) to recover costs beyond the budget year to maintain a stabilized CRR. DLA WCF establishes its selling or standard prices in the budget to ensure sufficient budgetary resources are available to cover the costs of operations. The prices are normally stabilized or fixed during execution to mitigate the impact of unforeseen fluctuations. DLA WCF will not change the prices during the fiscal year unless prior approval from OUSD(C) is received, except for those instances in which the SCM out-of-cycle price changes may be made without OUSD(C) approval.

The DLA Energy Management generally bills its customers using petroleum standard price mandated by OUSD(C). OUSD(C) establishes the standard price for petroleum on an annual basis (refer to Note 1.R, *Revenue and Other Financing Sources*, related to non-NSN and cost-plus pricing).

In FY 2025 DLA Energy had no revenue forgone due to the product-related component of the SFP charged to DLA customers being higher than the full cost or market value of product costs.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Net, Revenue, and Unfilled Customer Orders; and Inventory and Related Property, Net & OI, *Revenue forgone*.)

Note 13: Statement of Budgetary Resources (Unaudited)

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 adjustments consist of recoveries of prior year obligated balances and unobligated balance of contract authority withdrawn. 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 2025
Reconciliation of PY Ending Unobligated Balances of CY Beginning Unobligated Balances SBR line 1071		
Unobligated balance brought forward, October 1	$	507,354
Recoveries of prior year unpaid obligations		6,637,232
Unobligated balance of contract authority withdrawn (-)		(6,596,091)
Unobligated balance, total	**$**	**548,495**

Contract Authority: Congress intended DLA Energy and DLA SCM to operate in a businesslike manner and to carry out its mission free from the uncertainty inherent in the annual appropriations process. Therefore, Congress has permitted DLA Energy and SCM to enter multiyear contracts.

Available contract authority per the Combined Statement of Budgetary Resources was $62.4 billion as of September 30, 2025.

Undelivered Orders (UDOs): For the year ended September 30, 2025, consist of the following (dollars in thousands):

		FY 2025
Intragovernmental Undelivered Orders		
Unpaid	$	2,952,556
Total Intragovernmental Undelivered Orders		**2,952,556**
Other than Intragovernmental Undelivered Orders		
Unpaid		31,545,450
Paid		99,688
Total Other than Intragovernmental Undelivered Orders		**31,645,138**
Total Undelivered Orders	**$**	**34,597,694**

UDOs represent the amount of goods and/or services ordered to perform DLA WCF'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. For the year ended September 30, 2025, DLA WCF does not have Intragovernmental Paid UDO balances.

Due to system limitations, DLA WCF is unable to determine the Intragovernmental and Other than Intragovernmental allocation of UDOs. DLA WCF estimates the allocation of Intragovernmental and Other than Intragovernmental unpaid UDOs based on funded liabilities, excluding payroll and employee benefit liabilities, and paid UDOs based on advances and prepayments reported on the Balance Sheet.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental/Intra-departmental and Other than Intergovernmental Transaction; and Accounts Payable, Expenses, and Undelivered Orders.)

Contributed Capital: For the year ended September 30, 2025, the DLA WCF Capital Investment Program budget was reduced in the amount of $2.1 million.

Strength at Sea
Pathways to Career Excellence students graduate the program ready to support systems critical to national defense like the Virginia-class attack submarine USS California (SSN 781). **Photo by:** Chris Oxley

Note 14: Reconciliation of Net Cost to Net Outlays (Unaudited)

Reconciliation of Net Cost to Net Outlays for the year ended September 30, 2025, consists of the following (dollars in thousands):

	FY 2025		
	Intragovernmental	Other than Intragovernmental	Total
NET COST	**$ (38,821,712)**	**$ 41,348,318**	**$ 2,526,606**
Components of Net Cost That are Not Part of Net Outlays			
General Property, Plant and Equipment Depreciation Expense	-	(87,624)	(87,624)
General Property, Plant, and Equipment Disposals	-	(47,108)	(47,108)
Cost of Goods Sold	(7,076,732)	(32,837,773)	(39,914,505)
Net Gains/(Losses)	-	(2,506,321)	(2,506,321)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	306,093	(43,273)	262,820
Advances and Prepayments	-	(290)	(290)
(Increase)/Decrease in Liabilities:			
Accounts Payable	(62,204)	(434,685)	(496,889)
Environmental and Disposal Liabilities	-	9,157	9,157
Federal Employee Salary, Leave, and Benefits Payable	-	(7,504)	(7,504)
Pensions and Other Post-Empoyment Benefits Payable	-	21,182	21,182
Advances from Others and Deferred Revenue	408	590	998
Other Liabilities	(4,055)	438	(3,617)
Financing Sources:			
Imputed Financing	(342,624)	-	(342,624)
Total Components of Net Cost That are Not Part of Net Outlays	**(7,179,114)**	**(35,933,211)**	**(43,112,325)**
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of Inventory	173,744	40,768,671	40,942,415
Acquisition of Capitalized Assets	-	160,791	160,791
Transfers In/Out without Reimbursements	(461,963)	-	(461,963)
Total Components of Net Outlays That are Not Part of Net Cost	**(288,219)**	**40,929,462**	**40,641,243**
NET OUTLAYS	**$ (46,289,045)**	**$ 46,183,778**	**$ 55,524**
Outlays, Net, Statement of Budgetary Resources			**516,420**
Reconciling Difference			**$ (460,896)**

The Net Cost to Net Outlays Reconciliation schedule clarifies the relationship between the Net Cost (reported in the Statement of Net Cost) to the Net Outlays (reported in the Combined Statement 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.

Miscellaneous Items: Includes custodial/non-exchange revenue, non-entity activity, and other temporary timing differences.

In FY 2025, the reconciling differences between the net cost and net outlays included costs of goods sold, Accounts Payable for goods and services received but not yet paid for, and future funded expenses related to Environmental and Disposal Liabilities, all of which have no impact to net outlays. Additionally, the acquisition of capital assets was a reconciling difference that had no impact on net cost.

The resulting reconciling difference is primarily due to limitations of financial and nonfinancial management processes and systems that support the financial statements, as disclosed in Note 1.B., *Basis of Presentation and Accounting*. In addition, DLA WCF does not have an established policy to identify components of net cost or net outlays that have not been properly accounted for or reconcile net cost to net outlays. As such, DLA WCF will continue to investigate and resolve the causes of any reconciling differences.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Revenue, and Gains, Inventory and Related Property, Net, Intragovernmental/Intra-departmental and Other than Intragovernmental Transactions, Accounts Payable, Undelivered Orders, and Reconciliation of Net Cost to Net Outlays.)

DLA Supports the Space Force

The Defense Logistics Agency provides comprehensive logistics support to America's armed forces, including the newly established U.S. Space Force. The increasing significance of space operations in national security has positioned the Space Force as a critical branch of the military, and Aviation plays a vital role in ensuring this new branch operates effectively. **Photo by:** DLA

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Deferred Maintenance and Repairs

The DLA WCF pays for the operating cost of five stewardship properties. These properties were transferred in FY 2020 to the Department of the Army, and the Army is responsible for all financial reporting for these assets (for example, financial reporting and disclosures such as, but not limited to, note disclosures, Deferred Maintenance and Repair (DM&R), and other required supplemental information (RSI)). In addition, DLA also pays for operation costs related to Real Property (RP) transferred out to other Military Services since FY 2020 and continue usage of these properties.

The DLA WCF included the additional disclosure related to the maintenance and repair needs of these assets, which were identified primarily through the condition assessment process. Maintenance and repairs that were not performed when required, or were scheduled and delayed for a future period, are considered DM&R. For the year ended September 30, 2025, the DM&R consisted of the following (dollars in thousands):

		FY 2025
Active		
Category 1: Building, Structures, and Linear Structure (Enduring Facilities)	$	5,430,593
Category 2: Building, Structures, and Linear Structure (Heritage Assets)		2,134
Total Active	**$**	**5,432,727**
Inactive and Excess		
Category 3: Building, Structures, and Linear Structure (Excess Facility or Planned for Replacement)	$	-
Total Inactive and Excess		
Total Deferred Maintenance	**$**	**5,432,727**

M&R Policies Installation & Equipment (DM-I) manages the DLA Non-Energy portion of the Sustainment, Restoration, and Maintenance (SRM) program. DLA Energy manages a separate SRM program independent of DM-I.

DM-I continues to conduct condition assessments of DLA Non-Energy facilities using the U.S. Army Corps of Engineers (USACE) Sustainment Management System (SMS), BUILDER.

M&R Prioritization Planning, programming, and budgeting of the DLA Non-Energy SRM program is executed using the following priorities:

1. Life, Health, and Safety Concerns (cannot mitigate)
2. Emergency Fire Suppression
3. Building Mission Critical Index
4. Facility BCI
5. DLA Strategic Initiative and Posture
6. Commander’s Authorization
7. Time Sensitivity

Field sites submit their candidate projects ranked with the above-prioritized criteria. Prioritized DLA Non-Energy projects, forming a 1 – N list, are submitted to a Sustainment (maintenance and repair) board for review and voting similar to the Military Construction (MILCON) Installation Level Review Board. The DLA Chief of Staff and DLA's MSCs chiefs of staff chair the Sustainment board. Approved projects above the MSC funding line move forward for execution based on the priority list.

For DLA Energy, the SRM program is executed in accordance with DLA Energy P-12 and the DLA Energy SRM Handbook. All work is prioritized by the Service Control Point in accordance with Service and DoD mission priorities.

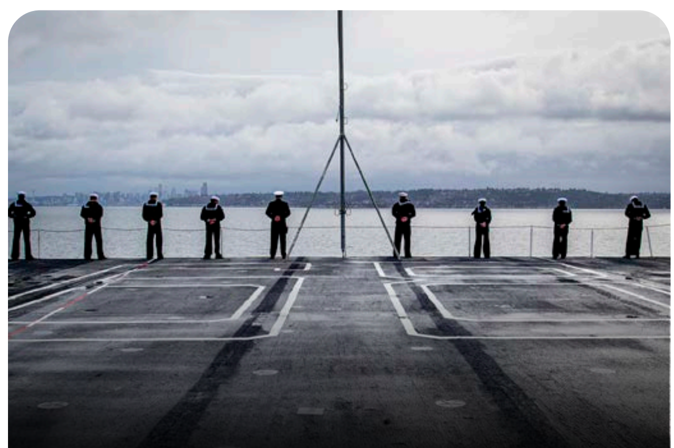
Acceptable Condition Standards OSD and DLA consider an asset acceptable when it is in good condition with an assigned minimum FCI of 80%. Failing facilities have an FCI below 60% whereas facilities are classified in "Poor" condition with an FCI between 60 and 79. This acceptance criterion is in accordance with the Under Secretary of Defense memorandum dated April 29, 2014, titled *Facility Sustainment and Recapitalization Policy*. The DLA also considers life, health, safety, and mission when assessing acceptable conditions. For Non-Energy, BUILDER has three separate criteria to assist in the assessment of DLA facilities: FCI, Condition Index (CI) at the facility component level, and BUILDER Condition Index (BCI) at the building level. The BCI is a weighted average of the CIs of a facility.

Capitalization of DM&R The DM&R information presented relates to all DLA operated DoD facilities where DLA has the maintenance responsibility and is not solely restricted to capitalized assets.

Asset Exclusions The DM&R information presented relates to all DLA operated DoD facilities that are in Active (ACT) and To Be Acquired (TBA) status. It excludes all other facilities in semi-active status, caretaker, out granted, non-functional, environmental hold status, closed, disposed, excess, surplus, or returned to the service components in an effort to represent accurate RP inventory where DLA has the repair & maintenance responsibility.

Changes Year-to-Year For Category 1 Active Facilities from FY 2024 to FY 2025 total DM&R has decreased due to increase in funding for DLA Facilities projects. For Category 3 Excess Facilities or Planned for Replacement, there is a significant increase in total Plant Replacement Value (PRV) as there are additional assets planned for replacement or demolition. For PRV values reported in FY 2025, DLA is reporting DLA Non-Energy PRV values only, and thus are making a correction to the FY 2024 PRV Values previously reported.

The DLA Energy is funded to 100% of the Facility Sustainment Model and obligated 100% of those funds in FY 2025; therefore, DLA Energy has no deferred maintenance costs this Fiscal Year. Also, a more efficient internal staffing process for projects requiring Congressional Notification (CN) has significantly reduced the time required for approval. The increase in the DLA PRV is due to changes in asset valuation and updates to real property accountable systems of record.



Manning the Rails
DLA Land and Maritime's Specialized Management Operations Directorate manages critical weapon system parts for the Nuclear Reactor Program, keeping Nimitz-class and other aircraft carriers afloat deterring the nation's enemies. **Photo by:** U.S. Navy Mass Communication Specialist 2nd Class Hannah Kantner

DLA Provides A Helping Hand
Soldiers move supplies for those affected by Hurricane Helene in Black Mountain, N.C. **Photo by:** Navy Petty Officer 2nd Class Ryan Walvoord

Combining Statement of Budgetary Resources

The Combining Statement of Budgetary Resources combines the availability, status, and outlays of DLA WCF budgetary resources. Total Budgetary Resources consist of the net unobligated balance from prior year budget authority and new budgetary authority. The Status of Budgetary Resources presents the availability of those budgetary resources. Outlays, Net consist of offsetting collections and cash disbursements. These cash disbursements are payments made to prepay, advance or liquidate obligations incurred using either current or prior period budget authority. Budgetary resources must be available before obligations can be incurred legally (refer to Note 1.B., *Basis of Presentation and Accounting*, related to Combining Statement of Budgetary Resources). The following schedule provides the Combining Statement of Budgetary Resources disaggregated by DLA WCF activities for the year ended September 30, 2025.

Combining Statement of Budgetary Resources

For the Year Ended September 30, 2025 (dollars in thousands)

	Energy	Supply Chain Management	Document Services	FY 2025 Total
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net	$ 179,397	$ 214,587	$ 154,511	$ 548,495
Appropriations	2,253	-	3	2,256
Contract Authority	16,933,174	44,627,068	-	61,560,242
Spending Authority from Offsetting Collections	-	-	330,100	330,100
TOTAL BUDGETARY RESOURCES	**$ 17,114,824**	**$ 44,841,655**	**$ 484,614**	**$ 62,441,093**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments	$ 16,992,961	$ 44,627,067	$ 313,933	$ 61,933,961
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	121,864	214,587	170,681	507,132
Unexpired Unobligated Balance, End of Year	121,864	214,587	170,681	507,132
Total Unobligated Balance, End of Year	121,864	214,587	170,681	507,132
TOTAL BUDGETARY RESOURCES	**$ 17,114,825**	**$ 44,841,654**	**$ 484,614**	**$ 62,441,093**
OUTLAYS, NET				
Outlays, Net	$ 250,331	$ 289,887	$ (23,798)	$ 516,420
AGENCY OUTLAYS, NET	**$ 250,331**	**$ 289,887**	**$ (23,798)**	**$ 516,420**

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AGENCY FINANCIAL REPORT

WORKING CAPITAL FUND

SECTION 3

OTHER INFORMATION

(UNAUDITED)

SECTION 3

Other Information

In this section:

Evacuation Prep
Sailors prepare aircraft for evacuation or storage ahead of Hurricane Milton at Naval Station Mayport, Fla. **Photo by:** Navy Petty Officer 2nd Class Alexa H. Trafton

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The audit reports on the FY 2025 DLA WCF financial statements identified material weaknesses for DLA WCF. Table 1 below provides a summary of the DLA WCF financial statement audit results for FY 2025.

Although the material weaknesses overall are not resolved, DLA is continuing to develop CAPs to resolve specific findings associated with the material weaknesses.

Table 1: FY 2025 DLA WCF Summary of the Financial Statement Audit

Audit Opinion	**Disclaimer**				
Restatement	**No**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Inventory	1	-	-	-	1
Fund Balance with Treasury	1	-	-	-	1
Accounts Receivable and Revenue	1	-	-	-	1
Accounts Payable and Expenses	1	-	-	-	1
Financial Reporting	1	-	-	-	1
Oversight and Monitoring	1	-	-	-	1
Information Systems	1	-	-	-	1
Total Material Weaknesses	**7**	**-**	**-**	**-**	**7**

Personal Protection

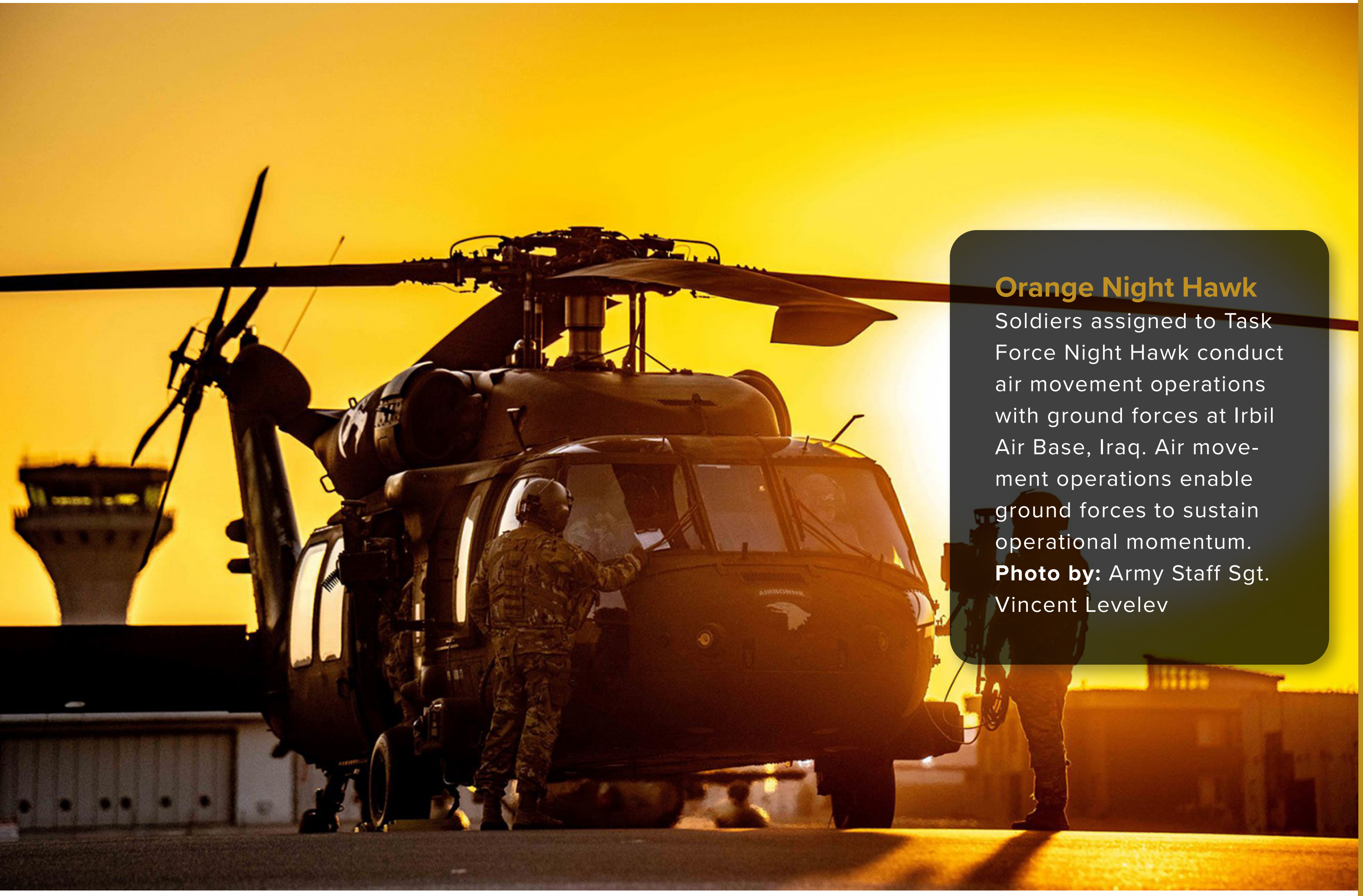
The USS Nimitz arrives in Apra Harbor, Guam, for a scheduled port visit. **Photo By:** Navy Petty Officer 1st Class Samantha Jetzer

The DLA SOA package only includes self-identified material weaknesses and significant deficiencies for internal DoD reporting; however, DLA continues to monitor the WCF financial statement audit material weakness areas separately. The DLA's FY 2025 Material Weaknesses and Significant Deficiencies template does not include self-identified material weaknesses in the area of Internal Controls over Operations (ICOR-O). For FY 2025, DLA has completed and validated corrective actions for 0 ICOR-O Material Weakness, summarized in the table below. In FY 2025, the 6 WCF Internal Controls over Financial Reporting (ICOFR) material weaknesses and 1 DLA Internal Controls over Financial Systems (ICOFS) non-conformance were based on financial statement audit NFRs. However, DLA has determined these audits identified ICOFR material weaknesses and ICOFS non-conformances are still present and have not been remediated in FY 2025. The DLA Audit Coordination & Liaison group continues to separately track WCF financial statement audit findings and CAPs and report these to the Office of the Deputy Chief Financial Officer.

Table 2a: Summary of Management Assurances						
WCF Effectiveness of Internal Control 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
Order-to-Cash: Accounts Receivable and Revenue	1	-	-	-	-	1
Procure-to-Pay: Accounts Payable and Expenses	1	-	-	-	-	1
Total Material Weaknesses	**6**	**-**	**-**	**-**	**-**	**6**

Table 2 summarizes DLA's FY 2025 material weaknesses associated with DLA.

Table 2b: 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**



Orange Night Hawk
Soldiers assigned to Task Force Night Hawk conduct air movement operations with ground forces at Irbil Air Base, Iraq. Air movement operations enable ground forces to sustain operational momentum. **Photo by:** Army Staff Sgt. Vincent Levelev

Based on DLA management's analysis of relevant FFMIA compliance indicators available at the time of this report, DLA identified a lack of compliance associated with all three FFMIA Section 803(a) requirements across all funds summarized in the table below.

Table 2c: 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

Rapid Refueling

Air Force Staff Sgt. Craig Oliver, left, and Staff Sgt. Jacob Ebberts, hot pit refuel a KC-135 Stratotanker aircraft during Exercise Bamboo Eagle 24-3 in Victorville, Calif. Hot pit refueling involves supplying an aircraft with fuel while its engines are running to expedite the turnaround time needed to relaunch the aircraft. Bamboo Eagle focuses on mission readiness by delivering cross-functional and lethal combat capabilities with speed and agility. **Photo by:** Air Force Tech. Sgt. Alexander Cook

REVENUE FORGONE

DLA Energy provides a fuel service to both military and public entities. The price for fuel supplied is determined by OUSD(C). Often, DLA Energy prices do not match market prices, and therefore DLA Energy can incur a loss in terms of revenue forgone for a given fiscal year. Revenue forgone is the difference between the product-related component of the SFP DLA charges in exchange transactions and the full cost or market value of products purchased in the current year. As of September 30, 2025, DLA Energy has not incurred revenue forgone from fuel sales. The demand for the quantity of petroleum products did not change as a result of the difference in price. While DLA WCF calculates the dollar impact of revenue forgone using the product portion of the SFP, certain transactions recorded by DLA use the cost-plus method (Refer to Note 1.R., *Revenue and Other Financing Sources Exchange and Non-exchange Revenue* and Note 12, *Exchange Revenue*).

DLA WCF does not track revenue forgone for the SCM and Document Services activity groups. Revenue forgone cannot be quantified due to limitations of financial and non-financial management processes and systems that support the financial statements, as disclosed in DLA WCF Note 1.B., *Basis of Presentation and Accounting*.

New Strategic Plan

Defense Logistics Agency and industry association leaders discuss the agency's new strategic plan and ways industry can help improve Warfighter readiness amid contested logistics challenges during a Demand Forecast and Industry Association Leadership Meeting at Fort Belvoir, Va. **Photo By:** Chris Lynch

MANAGEMENT CHALLENGES

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

September 09, 2025

MEMORANDUM FOR LTG MARK SIMERLY, DIRECTOR, DEFENSE LOGISTICS AGENCY

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

The military logistics Defense Industrial base is undergoing rapid transformation due to technological advancements, shifting economic conditions, regulatory complexities, and geopolitical volatility. As a key national component, the Defense Logistics Agency (DLA) must recognize and prepare for these emerging challenges. This memo outlines critical management challenges facing DLA in the near future and suggests actionable strategies to mitigate risk and sustain long-term operational resilience.

Key areas of concern include:

- Workforce management (in a digital and automated environment)
- Cybersecurity threats and data integrity
- Global supply chain disruptions and geopolitical tensions
- Customer expectations and technological integration

These topics deal with operational, financial, or managerial improvements to the operations of DLA to address accountability, auditability, and inherent risks affecting operational support to the Warfighter. Addressing these areas proactively will require focused investment, leadership commitment, and a strategic shift in our organizational culture.

Workforce management
The integration of automation, robotics, and AI into logistics operations presents significant talent management challenges. While automation can streamline operations, it also necessitates reskilling and upskilling employees to work alongside new technologies. Simultaneously, attracting and retaining tech-savvy talent in a highly competitive market requires a modernized approach to workforce development. Specific challenges include:

- Skill gaps and training needs for existing employees.
- High turnover rates and difficulty attracting young professionals.
- Resistance to change and adoption of new systems.

To address these challenges, OIG suggests DLA management:

- Update and continue to refine a comprehensive workforce development program.
- Expand partnership with colleges/universities and Industry for talent pipelines.
- Mature a culture of innovation and continuous learning.

Cybersecurity threats and data integrity
As our operations become increasingly digitized, cybersecurity has emerged as a critical threat vector. From planning systems to order fulfillment and customer data platforms and payment systems, our digital infrastructure is a high-value target for cyberattacks. GAO has also included cybersecurity on its annual list of high-risk areas. Specific challenges include:

- Protection of sensitive business and customer data.
- Securing interconnected logistics systems (including AI autonomy).
- Growing regulatory scrutiny over data privacy.

2

To address these challenges, the Agency should consider the following actions:
- Conduct a full cybersecurity audit and implement advanced threat detection tools.
- Reinvigorate employee cybersecurity training programs.
- Appoint a senior official responsible for overseeing data integrity and data acumen initiatives.

Global supply chain disruptions and geopolitical tensions
The past few years have exposed the fragility of global supply chains, with disruptions from pandemics, natural disasters, and geopolitical events significantly affecting delivery timelines and costs. Specific challenges include:
- Dependency on single-source suppliers or vulnerable regions.
- Limited visibility across extended supply chains.
- Rising transportation and fuel costs.

To address these challenges, OIG suggests DLA management:
- Diversify supplier base and assess geographic risk exposure (with Services as ESA).
- Invest in end-to-end supply chain visibility solutions.
- Explore nearshoring opportunities to reduce transit risk.

Customer expectations and technological integration
The modern customer demands speed, transparency, and seamless experiences. To remain competitive, we must leverage technology not only for internal efficiency but also to enhance the customer journey. Specific challenges include:
- Fragmented digital platforms which lead to inefficiencies.
- Limited real-time tracking and predictive delivery capabilities.
- Growing expectations for personalization and transparency.

To address these challenges, OIG suggests DLA management:
- Invest in an integrated digital logistics platform.
- Expand real-time tracking and analytics capabilities.
- Leverage AI for demand forecasting and route optimization.

In conclusion, to effectively manage the complex threats facing the logistics industry, we must take a forward-looking, strategic approach rooted in adaptability and innovation. By investing in our workforce, securing our digital infrastructure, strengthening our supply chain resilience, and aligning to customer and regulatory expectations, we can position our Agency as a resilient leader in a dynamic market.

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

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DAVID J. OPATZ
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 (IP), estimate the annual amount of IPs, and submit those estimates to Congress. In accordance with DoD 7000.14-R FMR, Volume 4, Chapter 14, Improper Payments, DoD components that entitle (i.e. process or compute) payments conduct risk assessments of their payment processes and random post-payment reviews to estimate IPs.

The OUSD(C) Accounting & Finance Policy Directorate (A&FP) compiles the Department-wide results annually as part of DoD's AFR. 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. 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.

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 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/.

Colorful Crew

Sailors observe flight operations aboard the USS Nimitz in the Pacific Ocean. **Photo by**: Navy Petty Officer 3rd Class Timothy Meyer

FY 25

AGENCY FINANCIAL REPORT

WORKING CAPITAL FUND

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 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 And Diversity Office (DO) provides DLA senior leadership, staff, and subordinate commands enterprise-wide respondent and subject matter expertise on all Equal Employment Opportunity Compliance oversight, Affirmative Employment and Diversity and Inclusion.

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, Combatant Commands, 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.

DLA Distribution Richmond Supports Ozone Depleting Substances Mission

Defense Logistics Agency employees load trucks in support of an Ozone Depleting Substances transportation project in support of DLA Aviation. **Photo by:** DoD

DLA Major Subordinate Commands

The following are DLA WCF MSCs:

DLA Troop Support, headquartered in Philadelphia, Pennsylvania, is DLA's lead center responsible for managing food, clothing, medical supplies, C&E, and general and industrial supplies worldwide. Troop Support delivers optimal, global supply chain solutions to Warfighters and other valued partners through five LOEs: Warfighter Always, Support to the Nation, Trusted Mission Partner, Modernize Acquisition and Supply Chain Management, and Future of Work. DLA Troop Support accomplishes these missions through the following Supply Chains: Subsistence, C&T, C&E and Medical.

DLA Land And Maritime, headquartered in Columbus, Ohio, is the primary source for repair parts for DoD weapon systems. DLA Land and Maritime supply chains support U.S. Army, U.S. Navy Surface and Subsurface, and USMC customers through dedicated customer relations, while working with numerous suppliers to fulfill requirements for assigned stock classes across the DoD. Furthermore, DLA Land and Maritime supply chains provide logistical services directly to Army and USMC industrial sites and Navy shipyards.

DLA Aviation, headquartered in Richmond, Virginia, is the primary source for repair parts and operating supply items for major weapon systems. The DLA Aviation supply chain provides mapping, kitting, chemical, petroleum packaging, gases, and cylinder items to the military services. In addition, DLA Aviation provides engineering, sustainability, ozone depleting substances reserve, and industrial plant equipment services.

DLA Distribution, headquartered in New Cumberland, Pennsylvania, is responsible for the receipt, storage, issuance, packing, preservation, and transportation of items worldwide. It operates a network of distribution centers around the world that provide timely and quality support to the Warfighters. Their Global Stock Position Plan ensures rapid distribution of critical military items. DLA Distribution's overseas distribution operations are located in Europe, Middle East, and Pacific Asia regions.

DLA Energy, headquartered in Fort Belvoir, Virginia, serves as DLA's executive agent for the bulk petroleum supply chain. DLA Energy's business includes:

- Selling petroleum and aerospace fuels
- Arranging for petroleum support services
- Providing facility/equipment maintenance on fuel infrastructure
- Performing energy-related environmental assessment and cleanup
- Storing and transporting for bulk and aerospace products, and Performing quality functions for petroleum in support of the military services, as well as for the privatization of their utility systems
- Providing Installation Energy products and Uti lity Services

DLA Disposition Services, headquartered in Battle Creek, Michigan, receives EOU DoD property and provides ultimate disposal services through reutilization, transfer, donation, and sales. Property not reutilized within DoD is available for transfer to other Federal agencies or for donation to authorized non- profit organizations or state and local governments. Property not reused, transferred, or donated is either competitively sold or disposed of in an environmentally safe manner. DLA Disposition Services also arranges for the worldwide disposal of hazardous waste in compliance with laws and regulations.

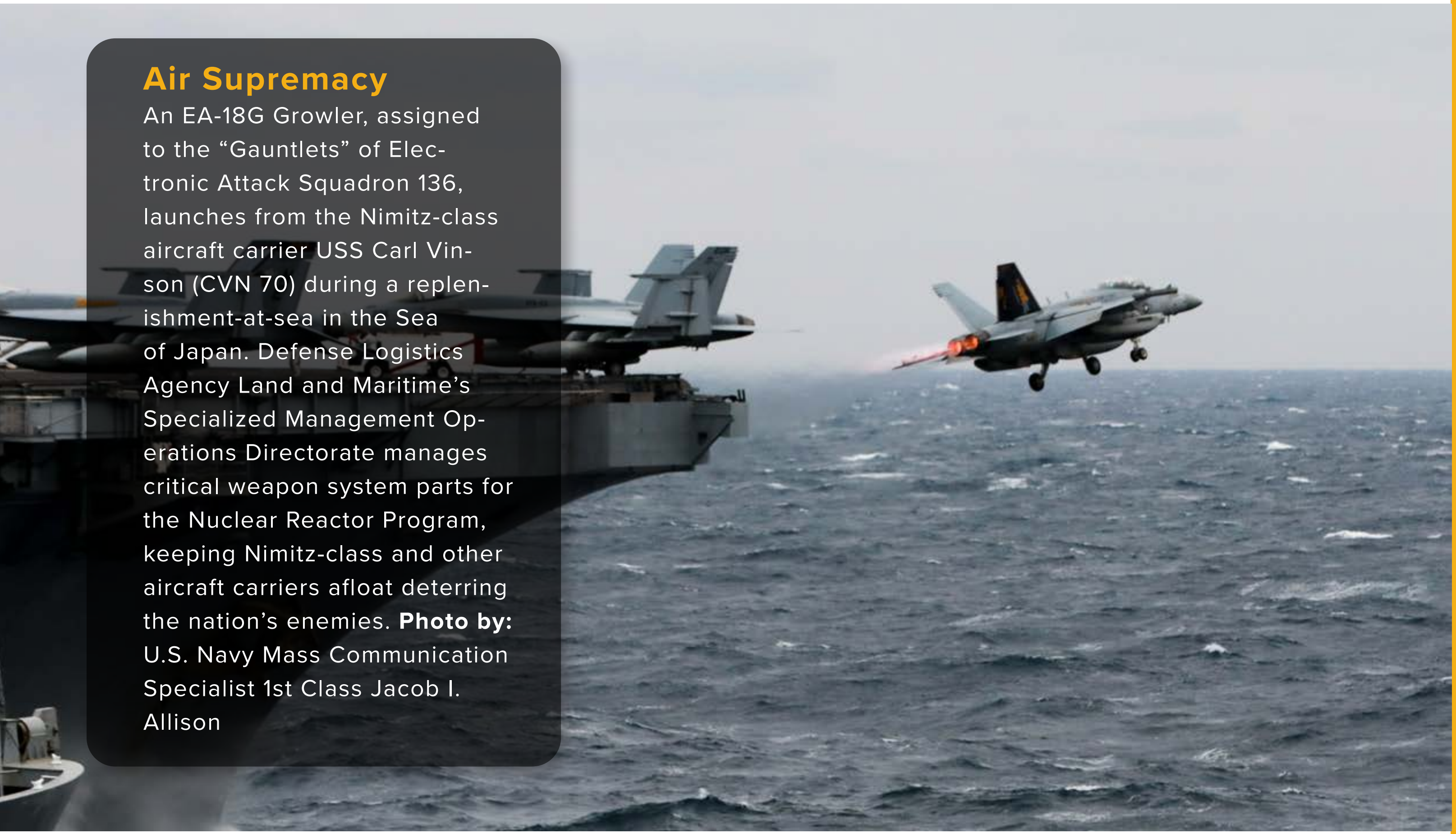
APPENDIX B: Abbreviations & Acronyms

A&FP	Accounting & Finance Policy Directorate
A/BO	Approving/Billing Officials
A/OPC	Agency/Organization Program Coordinators
ADA	Anti-Deficiency Act
AFR	Agency Financial Report
AI	Artificial Intelligence
AOP	Annual Operating Plan
AOR	Accumulated Operating Result
ASSIST	Acquisition Streamlining and Standardization Information System
BPN	Business Process Narratives
BRAC	Base Realignment and Closure
BS	Balance Sheet
BTS	Build Transformation Study
C&E	Construction and Equipment
C&T	Clothing and Textiles
CAPs	Corrective Action Plans
CARS	Central Accounting and Reporting System
CCs	Critical Capabilities
CFO	Chief Financial Officer
Charge Card Act	Charge Card Abuse Prevention Act
CI	Condition Index
CIP	Construction-in-Progress
CMR	Cash Management Report
CN	Congressional Notification
COLAs	Cost of Living Adjustments
CPMs	Component Program Managers
CRR	Cost Recovery Rate
CSRS	Civil Service Retirement System
CTC	Cost To Complete
DAI	Defense Agencies Initiative
DATA Act	Digital Accountability and Transparency Act of 2014
DCDS	Defense Cash Accountability System
DCIA	Debt Collection Improvement Act
DCRP	Document Services Consolidation and Reform Plan
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DFSP	Defense Fuel Support Point
DFSP	Defense Fuel Support Point
DISA	Defense Information System Agency
DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repair
DM-I	Installation Management - Installation & Equipment
DoD	Department of Defense
DODI	Department of Defense Instruction
DoE	Department of Energy
DOL	Department of Labor
DQCM	Data Quality Control Matrix
DQP	Data Quality Plan
DSA	Defense Supply Agency
DSCC	Defense Suply Center Columbus
DWWCF	Defense-Wide Working Capital Fund
E&DL	Environmental and Disposal Liabilities
EBS	Enterprise Business System
ECC	Resource Planning Central Component
ELC	Entity Level Control
EOU	Excess, Obsolete, and Unserviceable
EPoS	Electronic Point of Sale
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ESMS	Enterprise Sustainment Management System
EWSC	Enterprise Workflow Support Capability
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FCI	Facility Condition Index
FEA	Fuel Exchange Agreements
FECA	Federal Employee's Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System

FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulations
FMS	Foreign Military Sales
FRM	Fraud Risk Management
FRO	Financial Reporting Organization
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GF	General Fund
GMRA	Government Management Reform Act
GPC	Government Purchase Card
GRC	Governance, Risk, and Compliance
GSA	General Services Administration
GT&C	General Terms and Condition
HQ	Headquarters
IBP	Integrated Business Planning
IC	Internal Controls
ICORFR	Internal Controls over Financial Reporting
ICORFS	Internal Controls over Financial Systems
ICOR-O	Internal Controls over Operations
ID	Identification
IDA	Institute for Defense Analyses
IH	Industrial Hardware
IOD	Insight on Demand
IPA	Independent Public Accountant
IPAC	Intra-governmental Payment and Collection
IPE	Industrial, Plant, and Equipment
IPs	Improper Payments
IT	Information Technology
IUS	Internal Use Software
J/D Codes	Field Activity Codes
LOE	Lines of Effort
M&S	Modeling and Simulation
MAC	Moving Average Cost

MCI	Mission Criticality Index
MCRP	Mission Capability Review Panel
MDI	Mission Dependency Index
MILCON	Military Construction
MIPR	Military Interdepartmental Purchase Request
ML	Machine Learning
MOA	Memorandum of Agreements
MOCAS	Mechanization of Contract Administration Services
MSC	Major Subordinate Command
MVRP	Mission Validation Review Panel
MW	Material Weakness
NDSTF	National Defense Stockpile Fund
NFR	Notice of Findings and Recommendations
NMCS	Non-Mission Capable Supply
NOR	Net Operating Result
NRV	Net Realizable Value
NSN	National Stock Number
O&M	Operations and Maintenance
ODO	Other Defense Organizations
OI	Other Information
OIG	Office of the Inspector General
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)	Under Secretary of Defense (Comptroller)
OWCP	Office of Worker's Compensation Programs
P3	Public-Private Partnerships
PARs	Performance and Accountability Reports
PIIA	Payment Integrity Information Act
PMO	Program Management Office
PP&E	Property, Plant, and Equipment
PPA	Prompt Payment Act
PRV	Plant Replacement Value
PVF	Prime Vendor Fulfilment
R&D	Research and Development

RACER	Remedial Action Cost Engineering and Requirements
RCRA	Resource Conservation and Recovery Act
RMIC	Risk Management Internal Control
RP	Real Property
RSI	Required Supplementary Information
S/4	SAP S/4 HANA
SAP	System Applications and Products
SBR	Statement of Budgetary Resources
SCM	Supply Chain Management
SCNP	Statements of Changes in Net Position
SecDef	Secretary of Defense
SFFAS	Statement of Federal Financial Accounting Standards
SFP	Standard Fuel Price
SMS	Sustainment Management System
SNC	Statement of Net Cost
SOA	Statement of Assurance
SOD	Statement of Differences
SRM	Sustainment, Restoration, and Maintenance
TAS	Treasury Account Symbol
TBA	To Be Acquired
TDD	Treasury Direct Disbursing
TFM	Treasury Financial Manual
TI	Treasury Index
TROR	Treasury Report on Receivables
UCO	Unfilled Customer Order
UDO	Undelivered Orders
UoT	Universe of Transactions
USACE	U.S. Army Corps of Engineers
USAF	U.S. Air Force
USMC	U.S. Marine Corps
USSGL	U.S. Standard General Ledger
VV&A	Validated, Verified, and Accredited
WCF	Working Capital Fund
WMS	Warehouse Management System
WoG	Whole of Government



Air Supremacy

An EA-18G Growler, assigned to the “Gauntlets” of Electronic Attack Squadron 136, launches from the Nimitz-class aircraft carrier USS Carl Vinson (CVN 70) during a replenishment-at-sea in the Sea of Japan. Defense Logistics Agency Land and Maritime’s Specialized Management Operations Directorate manages critical weapon system parts for the Nuclear Reactor Program, keeping Nimitz-class and other aircraft carriers afloat deterring the nation’s enemies. **Photo by:** U.S. Navy Mass Communication Specialist 1st Class Jacob I. Allison

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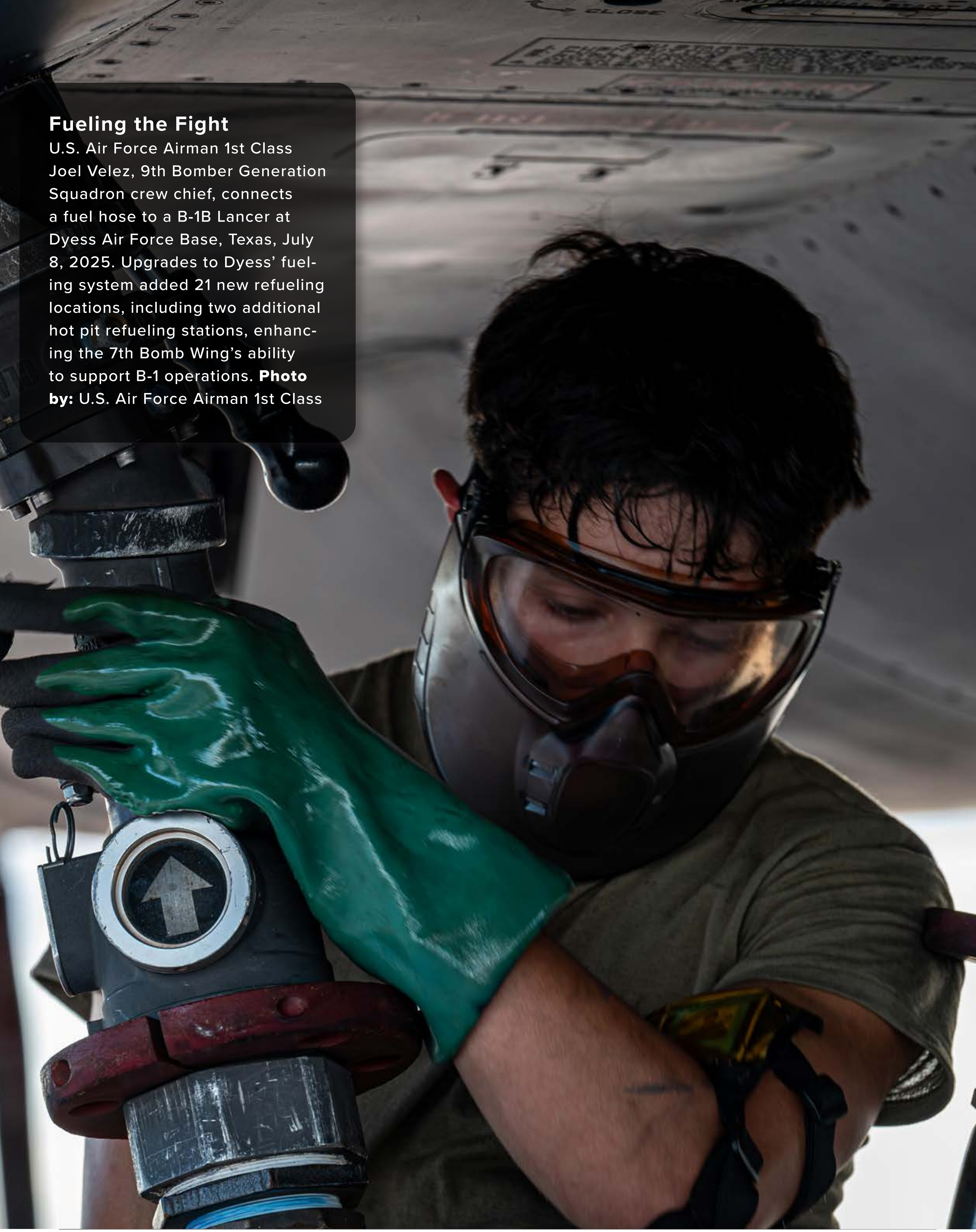
Images courtesy of **Department of Defense** and **Defense Logistics Agency**

DLA Fuels Maritime Superiority

The Virginia-class fast-attack submarine USS Minnesota (SSN 783) arrives in Western Australia earlier this year, initiating the first of two planned visits to HMAS Stirling in 2025. Defense Logistics Agency Maritime Mechanicsburg recently awarded a $5 billion contract to six small businesses expediting support for Virginia-class submarines and active surface ships in a move set to significantly enhance the nation's maritime advantage. **Photo by:** Lt. Corey Todd Jones



Fueling the Fight
U.S. Air Force Airman 1st Class Joel Velez, 9th Bomber Generation Squadron crew chief, connects a fuel hose to a B-1B Lancer at Dyess Air Force Base, Texas, July 8, 2025. Upgrades to Dyess' fueling system added 21 new refueling locations, including two additional hot pit refueling stations, enhancing the 7th Bomb Wing's ability to support B-1 operations. **Photo by:** U.S. Air Force Airman 1st Class

WARFIGHTERS ALWAYS

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