



DEFENSE LOGISTICS AGENCY

THE NATION'S LOGISTICS COMBAT SUPPORT AGENCY



FY2024 AGENCY FINANCIAL REPORT

WORKING CAPITAL & GENERAL FUNDS
(UNAUDITED)



DEFENSE LOGISTICS AGENCY

FY 2024 | AGENCY FINANCIAL REPORT

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THE DEFENSE LOGISTICS AGENCY (DLA) HEADQUARTERS

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

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About the Agency Financial Report

The Defense Logistics Agency (DLA) Working Capital Fund (WCF) and General Fund (GF) Agency Financial Report (AFR) provides comprehensive financial and performance data, enabling the President, Congress, and the American public to evaluate the organization's accomplishments and understand its financial results and operational functions. The AFR consists of DLA WCF and GF financial statements and other reports. The principal

financial statements¹ have been prepared to report the financial position and results of DLA WCF and GF's operations. The principal financial statements and accompanying notes have been prepared from the books and records of DLA WCF and GF using guidance from the following applicable laws and regulations for which DLA WCF and GF are unable to provide assurance:

- ☑ Federal Managers' Financial Integrity Act (FMFIA) of 1982;
- ☑ Chief Financial Officers (CFO) Act of 1990;
- ☑ Government Management Reform Act (GMRA) of 1994;
- ☑ Federal Financial Management Improvement Act (FFMIA) of 1996;
- ☑ Reports Consolidation Act of 2000;
- ☑ Government Performance and Results Act (GPRA) Modernization Act of 2010;
- ☑ Payment Integrity Information Act (PIIA) of 2019
- ☑ Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements, as amended*;
- ☑ OMB Circular A-123, *Management's responsibility for Enterprise Risk Management (ERM) and Internal Control*; and
- ☑ OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*.

The DLA WCF and GF's financial results are unaudited because there are limitations due to underlying processes and internal controls that support the principal financial statements. DLA continues to implement processes and system improvements addressing these limitations. All information within this report pertains to DLA WCF and GF unless specifically noted otherwise. The AFR consists of three primary sections:

Management's Discussion and Analysis (Unaudited)

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

Financial Section (Unaudited)

This section contains the DLA WCF and GF audit reports, management's response to the audit reports, financial statements and the accompanying notes, as well as required supplementary information (RSI).

Other Information (Unaudited)

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

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



CARRIER OPERATIONS

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



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MESSAGE FROM THE DIRECTOR

On behalf of the Defense Logistics Agency (DLA), I am pleased to present the Fiscal Year (FY) 2024 Agency Financial Report (AFR). Today, DLA operates in a demanding global landscape, where the efforts of the Military Services, Combatant Commands, and DLA are contested by our adversaries in all domains and at all levels of war. Embedded with the Combatant Commands, DLA's workforce ensures the readiness and lethality of our Nation's Armed Forces across all levels, from tactical to strategic levels.

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. We are thinking, acting, and operating differently to remain ready and provide innovative, state-of-the-art solutions for today's Warfighter. DLA will continue to improve its capability and capacity to deliver agile, adaptive, and resilient logistics support across the continuum of conflict, as an indispensable part of the warfighting team.

As we aggressively transform our logistics processes throughout the Agency, we are equally committed to elevating and refining our financial reporting standards. Our comprehensive audit roadmap is designed to drive significant process improvements, fortify financial management practices, and enhance monitoring and oversight capabilities.



In FY 2024, our operations spanned the globe, including significant assistance with hurricane recovery efforts, support for the war in Ukraine and the Middle East, as well as defueling of the Red Hill Bulk Fuel Storage Facility. DLA's ability to achieve its objectives relies on access to timely, accurate, and reliable data, that spans from the business operations to the financial data.

During our eighth annual financial statement audit, our data analytics environment and information technology systems improved and progressed toward a favorable audit opinion. Our strong financial foundation and precise financial support drove our success.

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

Mark T. Simerly,
LTC, USA
Director

“ ”

TO MEET THE DEMANDS OF 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





MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am proud to join the Director with issuing the Fiscal Year (FY) 2024 Agency Financial Report (AFR). This is the eighth AFR the Defense Logistics Agency (DLA) has issued since an independent public accounting firm commenced the financial statement audit of the Working Capital Fund (WCF) and General Fund (GF). The FY 2024 DLA AFR highlights valuable insights into the overall financial operations, accomplishments, and challenges of the Agency. DLA remains committed to providing services and ensuring value, effectiveness, and efficiency, as well as ensuring outstanding stewardship to protect against fraud, waste, and abuse in every program we manage.

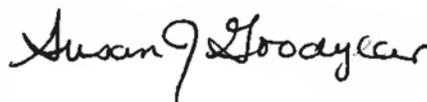
For FY 2024, DLA received a disclaimer on the Agency's financial statements. DLA's continued efforts to achieve a favorable opinion reach across all levels of the enterprise by establishing the framework needed to downgrade material weaknesses by reviewing, establishing, and reengineering end-to-end business processes, identifying the financial reporting risks, and designing and implementing the appropriate controls to mitigate these risks.

The DLA enterprise efforts include initiatives to improve financial operations (budgeting, accounting, and reporting), system solutions, and risk management to enhance the value provided to the Warfighter and our partners. DLA continues to focus on efforts and resources towards upgrading financial and operational systems to remediate audit findings in areas with the greatest impact to the financial statements, while improving financial data and internal controls to achieve



unmodified audit opinions. DLA continued to successfully field a warehouse inventory management system at multiple DLA sites. The Warehouse Management System (WMS) will provide better inventory accuracy and auditability. Additionally, following the 'One DLA' guidance, the G-Invoicing team has completed 49 General Terms and Conditions (GT&C) agreements that now cover over 90% of the historical Intra-governmental Payment and Collection (IPAC) transactions. These single GT&Cs mitigate audit risks through reduced misalignment of orders and increased buyer-seller efficiency.

As we transform our DLA operational environment, we continue to pursue improvements that will elevate financial reporting through a strong network of data analytics, internal controls, and business processes. One of our highest priorities is to provide enhanced financial management to identify and address risks, successfully overcome challenges, and implement actions to remediate material weaknesses. Our commitment to fiscal stewardship is paramount in supporting the Warfighter and demonstrates prudent use of the American taxpayer funds entrusted to us.



Susan Goodyear,
Director, DLA Finance
Chief Financial Officer



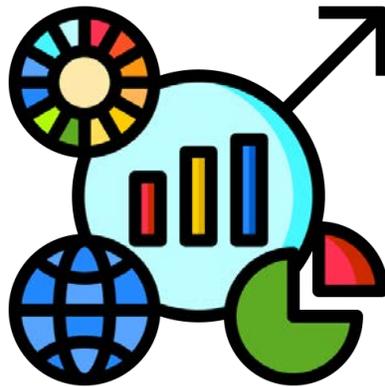
 **DLA CUSTOMER SERVICE**

A team that takes customer service to the next level. Terrance Taylor, DLA Customer Support Representative, DLA Land and Maritime and Chanita Darville, DLA Customer Logistics Site Specialist are on-the-ground at Naval Station Norfolk supporting the Navy. During site visits to work with Navy Supply Officers they check out the quality food provided by DLA Troop Support's Prime Vendors. **Photo By:** Nutan Chada



WCF | GF
FY2024

SECTION 1



MANAGEMENT'S
DISCUSSION AND ANALYSIS
(UNAUDITED)

SECTION 1

Management's Discussion and Analysis (Unaudited)

IN THIS SECTION:

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SECTION 1 Title Page Image Captions + Credits (listed clockwise)

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

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

2. SOUTHERN SEAS

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

3. DLA ENGINEERS VISIT 121ST AIR REFUELING WING

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

4. REPAIRING OF FUEL TANKS

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

MISSION AND ORGANIZATIONAL STRUCTURE



WORLDWIDE RESPONSIBILITIES

Defense Supply Agency officers consult a map at Cameron Station, Virginia, in 1964. The agency's worldwide responsibilities increased greatly the following decade when the Vietnam War showed the need for subsistence, equipment disposition and bulk petroleum integration beyond the continental United States. **Photo by:** courtesy of DLA

History and Mission

A Short History of the Defense Logistics Agency

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

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

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

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

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

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

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

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

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



FEDERAL CATALOGUE SYSTEM

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

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

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

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

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

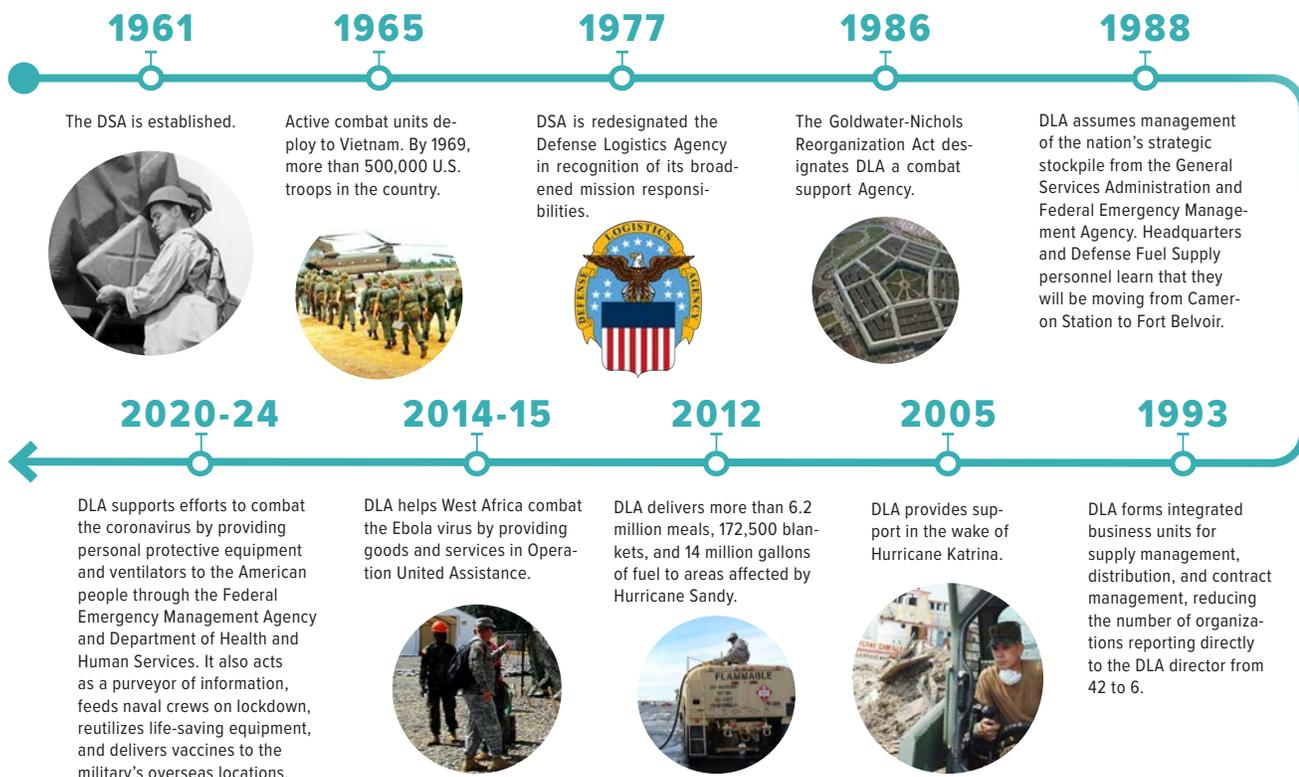
The DLA also supported humanitarian and relief missions domestically. In August 2005, it offered food,

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

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

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

History of DLA



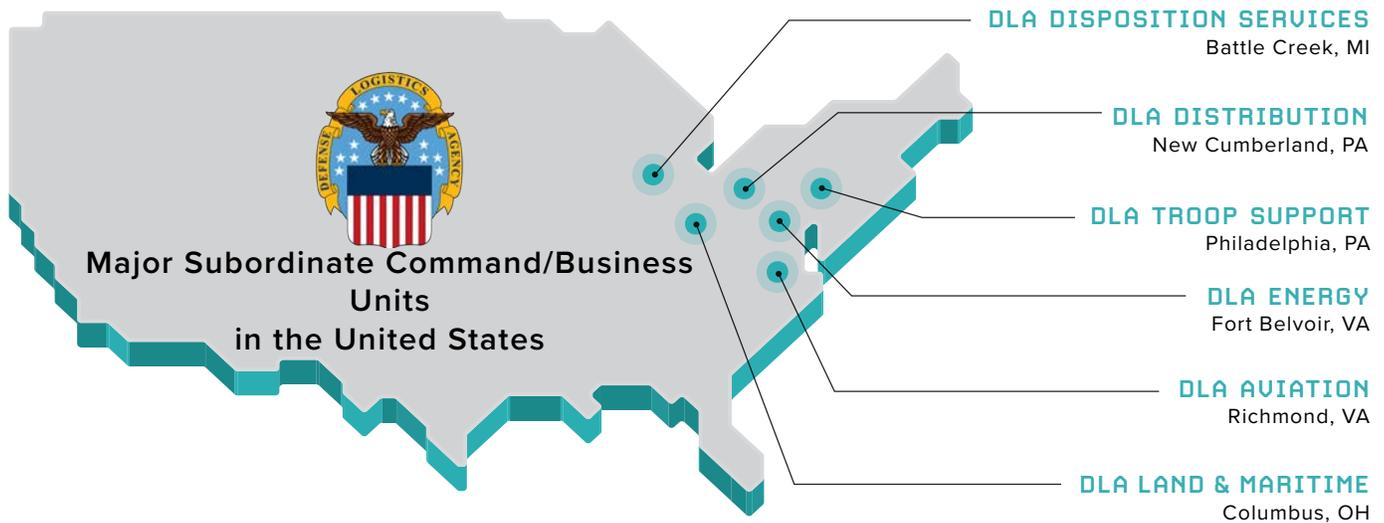


Mission

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

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

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



NORAD, NORTHCOM LEADERS DEMONSTRATE LOGISTICS DATA-SHARING TOOL

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

Organizational Chart

Below is DLA's organizational chart.

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



Figure 1: DLA Organizational Chart

To optimize management and enhance operational efficiency, DLA is governed by the J/D codes and Major Subordinate Commands (MSCs) represented in Figures 1

and 2: WCF and GF. Below is an overview of the functions, missions, and strategies utilized by DLA WCF and DLA GF to accomplish their objectives.

DLA Organizational Structure



Figure 2: DLA Organizational Structure

WORKING CAPITAL FUND

The DLA WCF ensures public accountability for budgetary resources through rigorous planning, execution, and monitoring of obligations in excess of \$56.3 billion annually. DLA WCF primarily operates through contract authority for its operating and capital activity groups, supplying critical support to American Warfighters in alignment with Federal laws and regulations. As a single, integrated business enterprise, DLA WCF focuses on supporting DoD components, other Federal Agencies, and public entities, enhancing the Armed Forces' readiness, and providing for the Warfighter during contingency operations.

The DLA WCF consists of three major activity groups: Energy, Supply Chain Management (SCM), and Document Services. Energy and SCM collaborate with Distribution and Disposition Services to form the six MSCs (as depicted in Figures 2 and 3). The MSCs facilitate the acquisition, distribution, and disposal of supplies. The Energy activity group manages the Energy MSC, and SCM oversees the other five MSCs. In its support role, Distribution provides global storage and distribution services to the eight supply chains described in Figure 3, 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.

The DLA WCF manages eight supply chains through the Energy and SCM activity groups and supports approximately 2,500 weapon systems. The SCM activity group supports seven supply chains:

- **Aviation**
- **Land**
- **Maritime**
- **Subsistence**
- **Medical**
- **Clothing and Textiles (C&T)**
- **Construction and Equipment (C&E)**

The Energy activity group manages the Energy supply chain.

Six Major Subordinate Command/Business Units

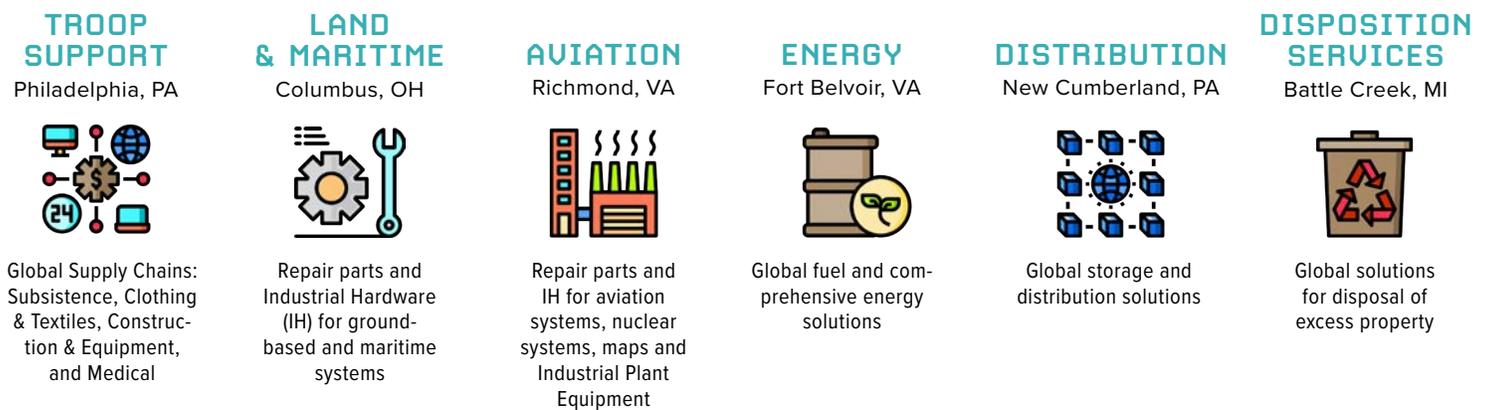


Figure 3: DLA MSC Chart

The DLA WCF has three major activity groups:

Energy, SCM, and Document Services

Energy

The DLA Energy activity group provides comprehensive energy solutions to DoD components (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities worldwide. DLA Energy manages energy-related products and services, including jet fuel, natural gas, quality assurance, and utility services. 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

The DLA SCM activity group manages five of the six MSCs and seven supply chains. DLA SCM provides logistics and material process management, policy, guidance, and oversight while continuously assessing 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. DLA SCM operates

a global network of distribution centers and Disposition Services for reutilization, transfers, and donations. DLA WCF's warehousing strategy aims to better serve Warfighters by collocating supplies where needed.

Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, and structure, ensuring alignment through enterprise integration and fostering partnerships with the private sector.

Document Services

The third DLA WCF activity, Document Services, operates primarily through spending authority from offsetting collections independent of the MSCs. Document Services is the preferred provider for document and printing services within the DoD. It offers a range of services also available to other Federal Agencies including document workflow conversion, electronic storage and output, multifunction devices, and distribution of hard copy and digital information. Document Services help customers reduce storage costs, increase information sharing efficiency, and provide enhanced functionality at a significantly lower cost.



VERTICAL REPLENISHMENT

Sailors brace against the force of an MH-60S Sea Hawk helicopter, attached to the Golden Falcons of Helicopter Sea Combat Squadron (HSC) 12, as other Sailors attach cargo on the flight deck of the U.S. Navy's only forward-deployed aircraft carrier, USS Ronald Reagan (CVN 76), during a vertical replenishment-at-sea with Military Sealift Command fleet replenishment oiler, USNS John Ericsson (T-AO 194), in the Philippine Sea. **Photo by:** US Navy Mass Communication Specialist, Petty Officer 3rd Class Kazia Ream

GENERAL FUND

The DLA GF receives appropriations under the Agency identifier code for the OUSD (Treasury Index (TI-97), along with Other Defense Organizations (ODOs)). OUSD (Comptroller) (C) uses a data element referred to as a 'limit' to identify the various ODOs under TI-97. Defense-wide (DW) appropriations allotted to DLA GF include: (1) Operation and Maintenance (O&M), (2) Procurement DW (PDW), (3) Research, Development, Test and Evaluation (RDT&E), (4) Military Construction (MILCON), and (5) Family Housing O&M. The appropriations provide the funding to incur obligations and to pay for goods and services. DLA GF sub-allots RDT&E and MILCON funding to other DoD organizations (i.e., Defense Microelectronics Activity (DMEA), USACE and U.S. Naval Facilities Engineering Command (NAVFAC)). DLA GF is responsible for reporting sub-allottee balances in the DLA GF AFR.

Operation and Maintenance (O&M)

O&M funds have an availability period of one year. DLA GF uses O&M appropriations for the sustainment of ongoing mission support initiatives at the Agency level and department wide. The O&M appropriation continues the path to achieving full spectrum readiness and advances DoD's multi-pronged, multi-year approach to build a more lethal and ready force with targeted investments in industrial readiness, microcircuit emulation, and soldier and family programs. For the year ended September 30, 2024 and 2023, O&M was appropriated a total of \$449.8 million and \$419.6 million, respectively.

Research, Development, Test and Evaluation (RDT&E)

RDT&E funds have an availability period of two years. To maintain technological superiority on the battlefield, DoD relies on scientific and technical knowledge developed in large measure through RDT&E. DLA's RDT&E funding is appropriated in Title IV Research, Development, Test and Evaluation. The RDT&E appropriation provides funding for DLA's Research & Development (R&D); it enables supply-chain innovation that directly supports the Warfighter. The program's goal is to deliver innovative and responsive

solutions to the Warfighters and other valued customers. DLA's RDT&E funds are primarily sub-allotted to DMEA for execution. Due to the long-term nature of research projects, DMEA funds are held by DLA GF and released to suballottees based on the project phase and related funding categories. For the years ended September 30, 2024 and 2023, RDT&E was appropriated a total of \$270.6 million and \$356.7 million, respectively. From the FY 2024 and FY 2023 newly appropriated funds, DMEA was sub-allotted a total of \$147.5 million and \$207.3 million, respectively.

Procurement Defense – Wide (PDW)

PDW funds have an availability period of three years. As the Nation's Combat Logistics Support Agency, DLA procures, manages, stores, and distributes items that the components of the DoD (including the U.S. Army, Navy, and Air Force, Marine Corps and Space Force) need to operate. Commodities include everything from maritime and land weapons systems support to medical supplies. DoD uses the PDW appropriations to obtain various categories of material, such as: new military hardware, aircraft, armored vehicles, and other major equipment; upgrades to existing equipment, including extending service life or remanufacturing existing systems; weapons and ammunition, ranging from air-to-air missiles to rounds for individual rifles; and spare parts, particularly those that are centrally managed. For the years ended September 30, 2024 and 2023, PDW was appropriated a total of \$105.5 million and \$24.5 million, respectively, for funding of equipment.

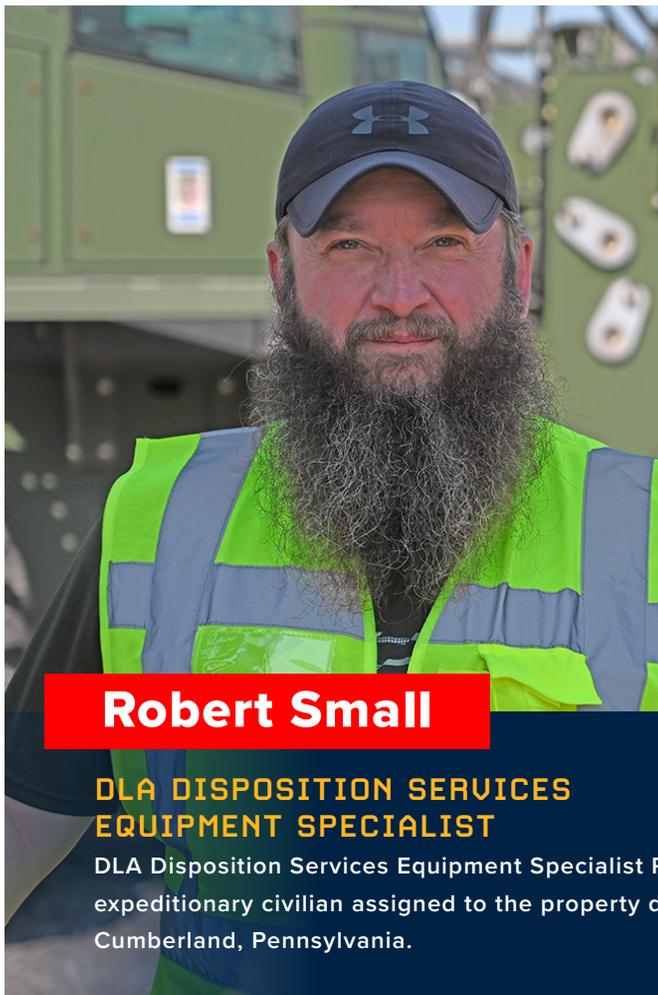
Military Construction (MILCON)

MILCON funds have an availability period of five years. MILCON appropriations are provided to construction agents. The three main funding categories include: (1) planning and design for the initial engineering phase of developing and scoping of all MILCON projects; (2) major construction to replace or renovate DoD Fuels, Distribution, and Inventory Control Point Facilities around the world; and (3) unspecified minor construction to address lower dollar add-on/related smaller projects, which emerge as new requirements

during the major construction process, and were not included in the original scope of the major construction projects. Because of the materiality and nature of the program, DLA combines the Family Housing Program with MILCON for reporting purposes in the Statements of Net Cost. For the years ended September 30, 2024, and 2023, MILCON was appropriated a total of \$285.7 million and \$220.5 million, respectively. DLA's MILCON funds are primarily sub-allotted to USACE and NAVFAC for execution. Due to the long-term nature of construction projects, MILCON funds are held by DLA GF and released to suballotees based on the project phase and related funding categories. From the FY 2024 and FY 2023 newly appropriated funds, USACE was sub-allotted a total of \$39.3 million and \$47.3 million, respectively. From the FY 2024 and FY 2023 newly appropriated funds, NAVFAC was sub-allotted a total of \$326.5 thousand and \$446.3 thousand, respectively.

Family Housing (MILCON, Defense-Wide)

Family Housing funds have an availability period of one year. The Family Housing appropriations encompass Military Family Housing (MFH) authorized by law to meet the requirements of the DoD and include all DoD Component family housing, leases of real property utilized by DoD Components for family housing, and associated family housing support services. DLA GF has not received Family Housing appropriations since 2019, as DLA GF has divested all its Family Housing units. Due to the size and materiality of Family Housing, DLA GF combined the Family Housing program with MILCON in its Statements of Net Cost for presentation and reporting purposes.



"This is my third exercise, but it's a different experience being in theater, there's a more troop-oriented feel to doing it away from Battle Creek."

Robert Small

**DLA DISPOSITION SERVICES
EQUIPMENT SPECIALIST**

DLA Disposition Services Equipment Specialist Robert Small is an agency expeditionary civilian assigned to the property disposal site in New Cumberland, Pennsylvania.



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

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

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

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

goal-oriented objectives and forward-looking initiatives are designed to strengthen DLA's efforts in sustaining Warfighter readiness and the Nation's responsiveness as described:

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

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

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

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

Critical Capabilities (CC):

Success across all Lines of Effort

Lines of Effort (LOE):

Core strategic outcomes of DLA's Targeted Transformation

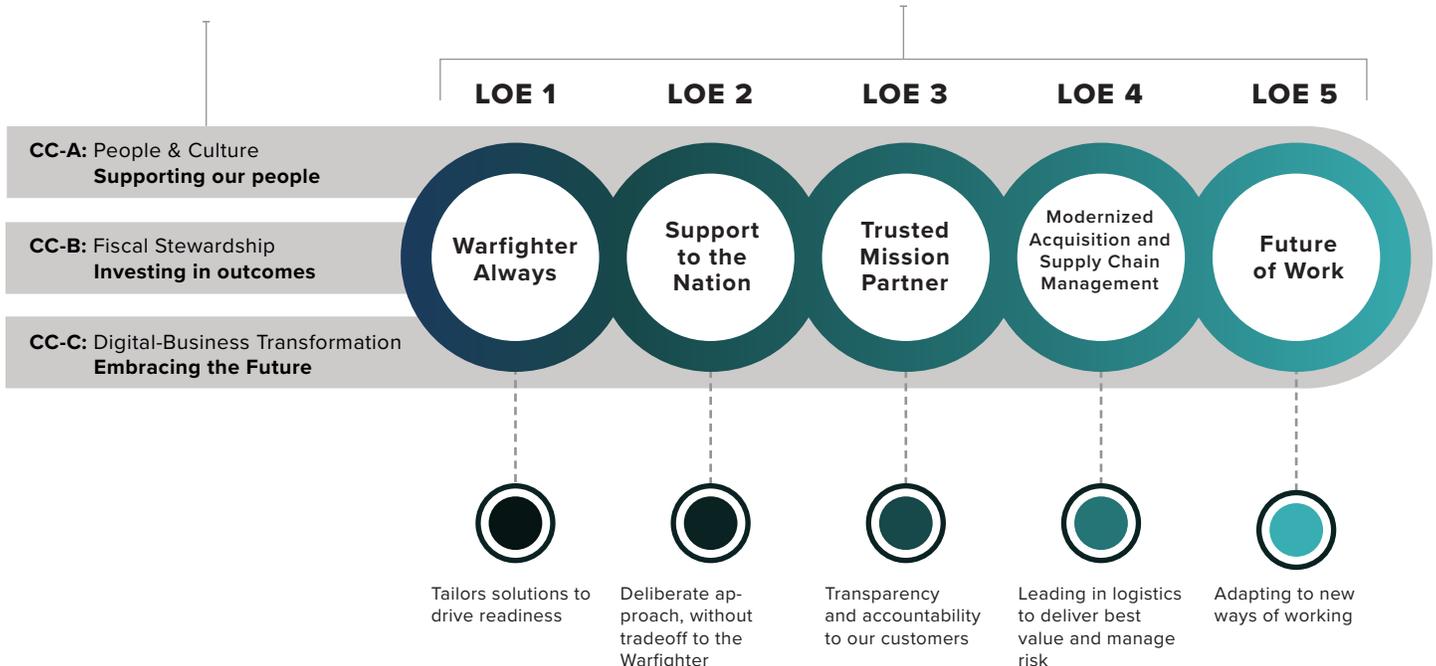


Figure 4: Lines of Effort and Critical Capabilities

The LOEs and CCs and their respective objectives in the section below are derived from DLA's 2021-2026 Strategic Plan. The objectives help the Agency have clear areas of focus that would help set clear performance measures and evaluate performance results by tracking yearly achievements for each LOE and each CC.

DLA's Lines of Effort

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

LOE 1: Warfighter Always

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

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

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

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

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

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

LOE 2: Support the Nation

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

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

LOE 3: Trusted Mission Partner

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

OBJECTIVE 3.2: Provide greater financial transparency to customers

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

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

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

LOE 4: Modernize Acquisition and Supply Chain Management

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

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

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

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

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

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

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

solutions to improve customer outcomes for routine and contingency operations.

LOE 5: Future of Work

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

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

OBJECTIVE 5.3: Build skillsets of the future

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

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



Photo by: Unsplash via Christina @ wocintechchat.com

DLA Critical Capabilities

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

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

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

Critical Capability A: People and Culture

OBJECTIVE A1: People

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

OBJECTIVE A2: Culture

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

Critical Capability B: Fiscal Stewardship

OBJECTIVE B1: Auditability

OBJECTIVE B2: Cost visibility and cash management

OBJECTIVE B3: Investment to drive efficiency and effectiveness

In an increasingly resource-constrained environment we will drive cost effectiveness while maintaining Service readiness. We must effectively manage our resources while making smart, transformative investments that increase value for our customers and taxpayers.

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

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

Critical Capability C: Digital - Business Transformation

OBJECTIVE C1: Transformational information technology capabilities

OBJECTIVE C2: Advanced analytics and automation

OBJECTIVE C3: Cybersecurity

OBJECTIVE C4: Technology governance

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

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

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



INSIGHT TO OPERATIONS

Navy Cmdr. Curtis Ceaser, supply officer at Fleet Readiness Center Southeast located in Jacksonville, Florida, shares insight to FRCSE operations during a Leadership Working Group forum at Defense Supply Center Richmond. The FRCSE team presented “A View from the Customer” and provided a breakdown of operations, including recent issues and solutions they’ve worked on. **Photo By:** Nicholas Pilch

DLA Performance Measures

Key Agency Performance Measures

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

OBJECTIVE B1: Auditability.

Roadmap to Auditability

DLA is striving to obtain unmodified audit opinions from its Independent Public Accounting (IPA) in the future. For FY 2024, DLA implemented a great number of processes that have a very notable impact in its roadmap to auditability, especially for DLA WCF and GF processes and financial data accuracy. This resulted from a combination of steps that DLA has taken year after year to effectively implement the necessary changes in its financial management and reporting processes. Over the years since the agency’s first audit in 2017, DLA has taken a two-track approach in resolving major impediments by (1) identifying root causes of conditions, prioritizing resources, and developing action plans to address Notice of Findings and Recommendations (NFRs) and (2) developing, improving, and refining the underlying end-to-end processes that support the compilation of its financial statements by instilling sound fundamental

practices in accordance with Federal financial management guidance and the U.S. GAAP. More specifically, To support these efforts, DLA has established various J codes, assigning specific responsibilities across the organization. These teams work collaboratively, both internally and with service providers, such as DFAS and DCMA, to effectively and efficiently implement corrective action plans. These steps are continuously being refined to improve the reliability and fair presentation of financial data reported in the DLA financial statements and the AFR.

Material weaknesses in controls persist; the corrective actions to address these weaknesses are ongoing. The following timeline summarizes the occurrence of events that propelled DLA into a corrective action posture.

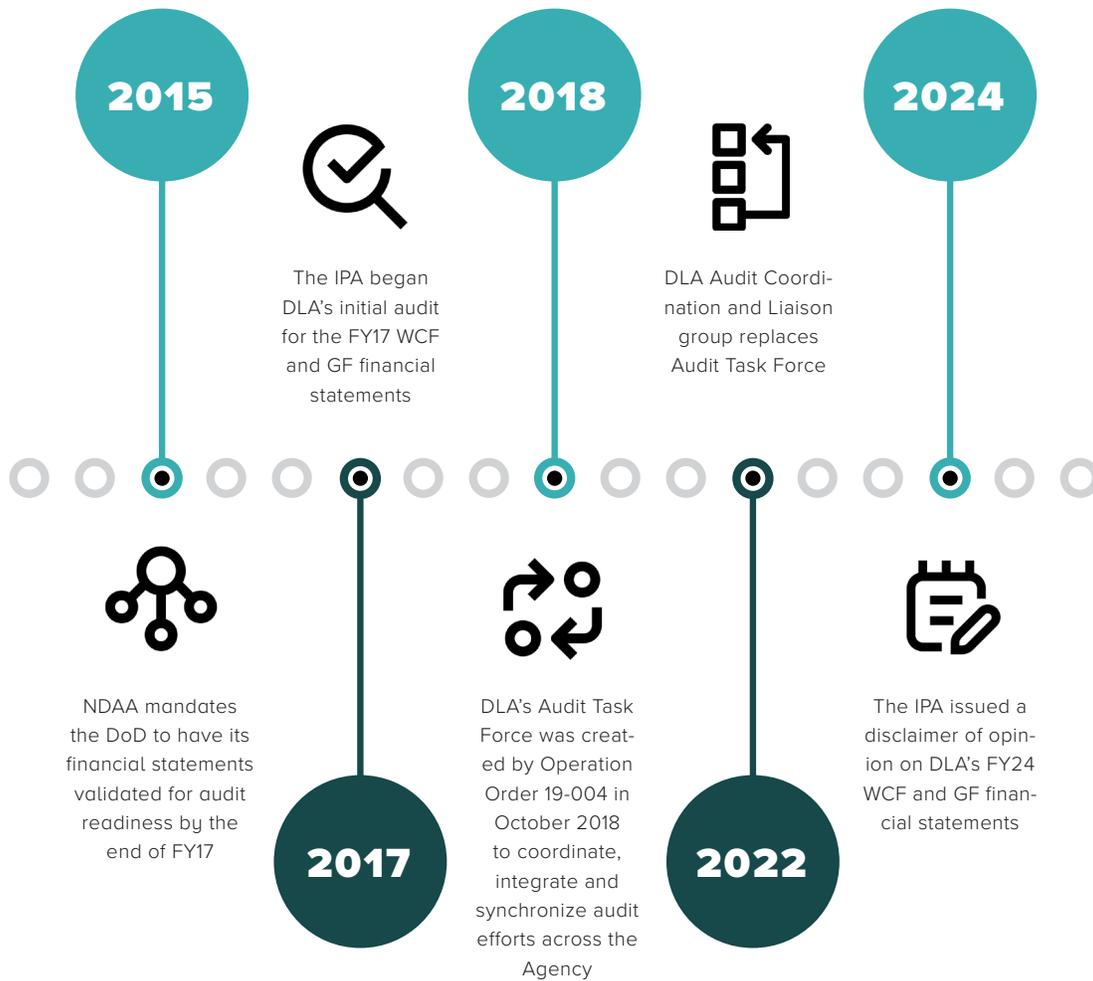


Figure 5: DLA Auditability Timeline



**DEFENDER '24
FIELD OPS**

DLA Distribution Expeditionary (DDXX) personnel from agency sites in Pennsylvania and California pose for a combined DDXX team photo during the U.S. Army's DEFENDER 2024 exercise in Gernersheim, Germany.

Photo by: Jake Joy



 **PACER GOOSE**

Sailors from the Navy Cargo Handling Battalion 1 and Surface Cargo Company 1, download cargo from the Ocean Giant cargo ship at Pier 8, Naval Station Norfolk, Virginia. The downloading of the Ocean Giant is the last major component of the Pacer Goose mission. Photo by Alvin Williams, DLA Distribution Public Affairs. **Photo By:** Alvin Williams

WORKING CAPITAL FUND

DLA WCF Performance Measure 1: SCM Supply Availability to Warfighters

This performance measure relates to the following objectives:

- OBJECTIVE 1.1:** Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments; and
- OBJECTIVE 4.4:** Enhance our acquisition capabilities to improve readiness for contingencies

The DLA SCM strives to supply the Warfighter in a timely, effective, and efficient manner. The following analysis shows DLA's ability to immediately fulfill the most critical requisitions from DLA's customer, Non-Mission Capable Supply coded requisitions. DLA continues its efforts in meeting Supply Availability expectations by employing smart budgetary techniques and leveraging rapid acquisition opportunities. WCF SCM continuously evaluates customer ordering behaviors, vendor compliance, forecasting, and supply chain processes to maximize support to its customers.

In its Weapons Supply Chains, DLA generally strives to procure and stock inventory in advance of need from the Military Services. In previous fiscal years, DLA leaned forward with inventory investments to support service readiness, which achieved all time high Supply Availability in FY 2024 and FY 2021. DLA dialed back spending for FY 2023 and FY 2024 resulting in a decrease in supply availability. DLA currently seeks to attain and sustain an aggregate 85% Supply Availability in its Weapons Supply Chains.

Continued on next page ►



SPOTLIGHT ON PRIDE

Team U.S. athletes participate in the Invictus Games in Dusseldorf, Germany. More than 500 military athletes from 21 nations participate in the games to highlight the resilience and spirit of wounded, injured and ill service members and veterans on the journey to rehabilitation.

Photo by: Anthony Beauchamp

Supply Availability to Warfighters

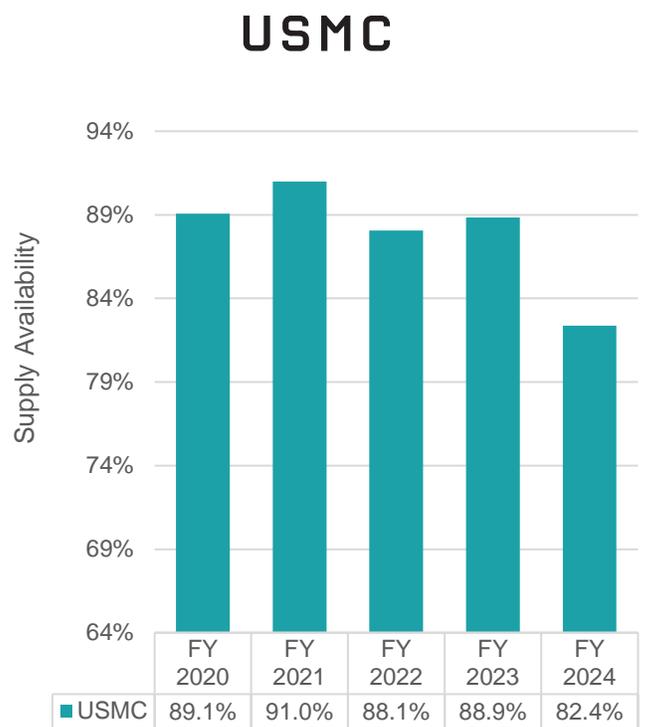
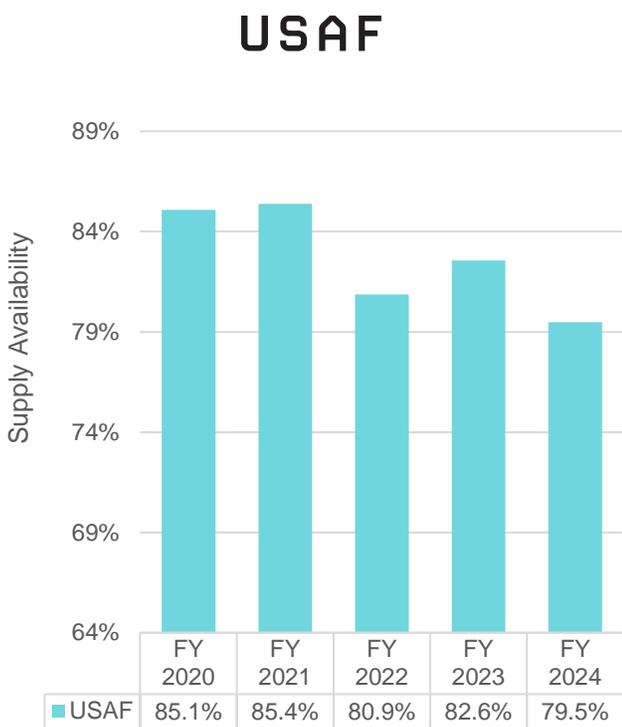
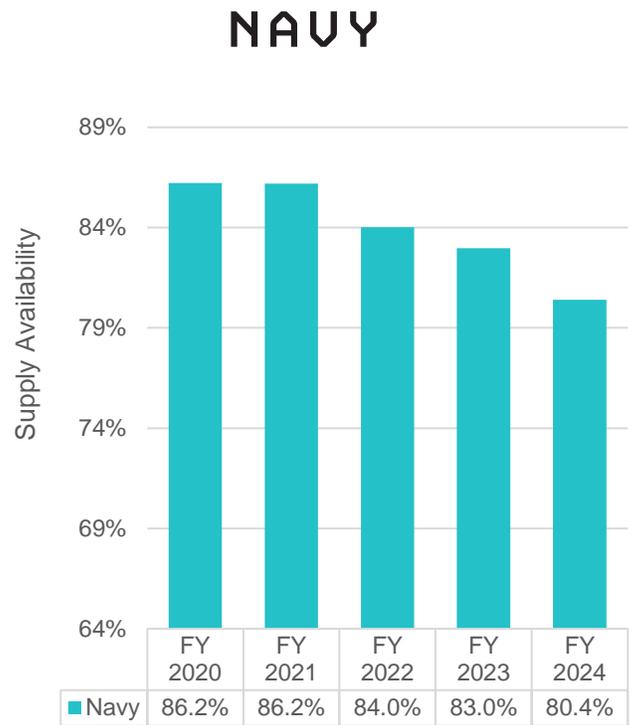


Figure 6: Material Availability to Warfighters by Military Command

DLA WCF Performance Measure 2: SCM “Wait Time” to Fill Supply Orders for Supply Chains

This performance measure relates to the following objectives:

- OBJECTIVE 1.1:** Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments; and
- OBJECTIVE 4.4:** Enhance our acquisition capabilities to improve readiness for contingencies

The DLA WCF tracks the average amount of wait time that occurs to fill backorders for its SCM. DLA WCF aims to minimize the amount of time required to fill backorders to increase the readiness of the Warfighter. DLA WCF’s emphasis on filling high priority non-mission capable supply backorders and weapon system readiness-based orders has allowed lower priority orders to age more than in the past. When those lower priority orders are not filled, they drive up the average wait time. In recent fiscal years, DLA has implemented restrictions on stock replenishment for inventory budgeting purposes. While SCM sales have continued to meet program goals, the reduced inventory funding has resulted in less inventory in-stock and less inventory on order with DLA vendors, ultimately driving up backorder resolution time. Additionally, FY 2021 and FY 2022 supply chain disruptions were driven by the COVID-19 Pandemic and are still also having an unfavorable impact on wait time.

The DLA SCM wait time to fill backorders for the Military Departments over the past five fiscal years is illustrated below for the following SCM supply chains: Aviation, Land, Maritime, C&E, and C&T. The IH supply chain, which had existed in prior years, was realigned in FY 2022 and transferred to DLA Aviation and DLA Land and Maritime. This realignment is expected to create future efficiencies and support increased material volume.

DLA WCF SCM applies variable strategic acquisition techniques to minimize supply wait times to supply the Warfighters efficiently and effectively. WCF Supply Chain Management will continue to evaluate supply orders and purchases, storage, and distribution processes, and plans to implement cost-justified modifications to increase efficiency and supply availability in future periods. DLA operations have been refining the data accumulation and reporting for this measurement, and prior year amounts currently being reported reflect improved data accumulation and categorization.

For the year ended September 30, 2024, WCF SCM “Wait Time” to Fill presentation changed from prior year to more closely align with current program goals and activity. Medical and Subsistence supply chains have been removed from presentation due to the nature of their business. In relation to the other supply chains, Medical and Subsistence have a much smaller percentage of backorders and backorder resolution that is not a core measurement of their business processes. This reflects a more comparable presentation of supply chain data to assess current performance.

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Wait Time to Fill Backorders for Supply Chain Management

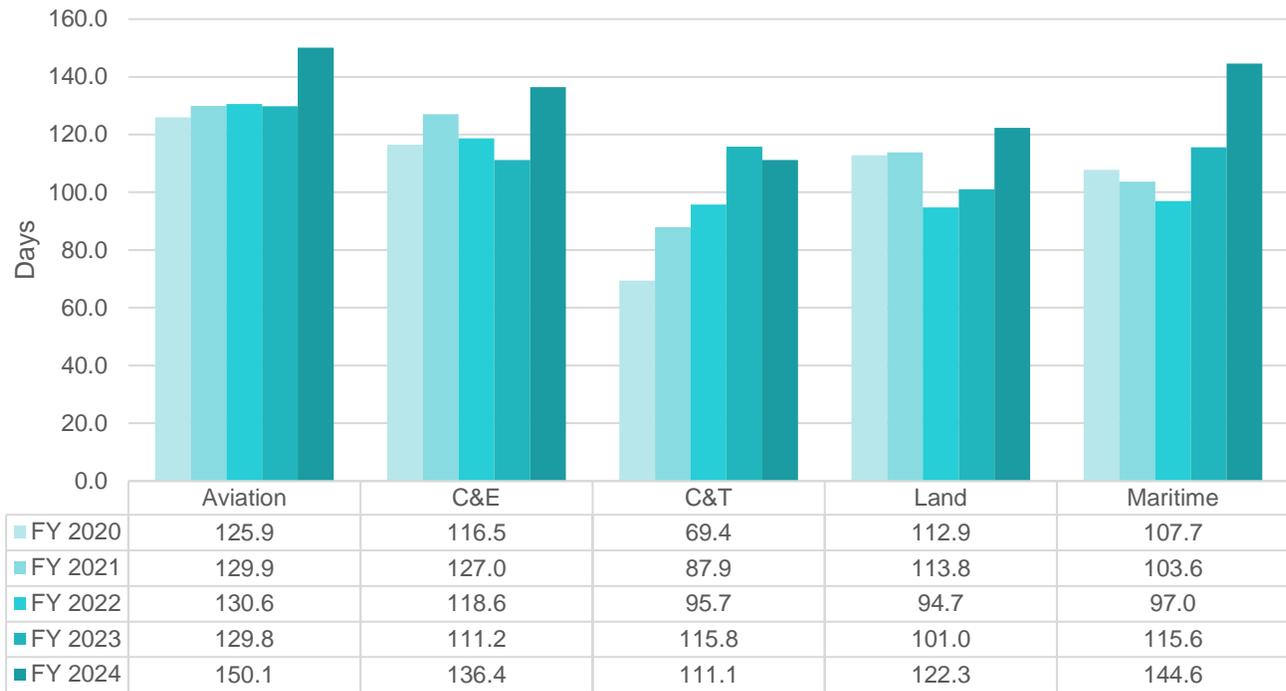


Figure 7: Wait Time to Fill Supply Orders for Supply Chain Management (in days)



DLA WELCOMES SIMERLY AS NEW DIRECTOR

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

DLA WCF Performance Measure 3: SCM Medical and Subsistence “Prime Vendor Fulfillment” for Prime Supply Orders to Supply Chains

This performance measure relates to the following objectives:

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

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

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. DLA uses the Prime Vendor Fulfillment (PVF) metric to assess vendor’s ability to fulfill orders within the required time frame and with the correct quantities and products. This metric ensures vendors are reliable in providing the necessary materials or goods to support operations, reducing delays, stockouts, and disruptions in the supply chain. High fulfillment rates are an indicator of a vendor’s ability to maintain consistent product availability and meet DLA’s needs.

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. This breakout provides a more detailed understanding of vendor performance and can help identify potential areas for improvement. Medical Pharmaceutical and Subsistence met their FY 2024 performance goal. Medical Surgical missed its goal due to late deliveries to DLA’s customers.

Prime Vendor Fulfillment Rate for Supply Chains

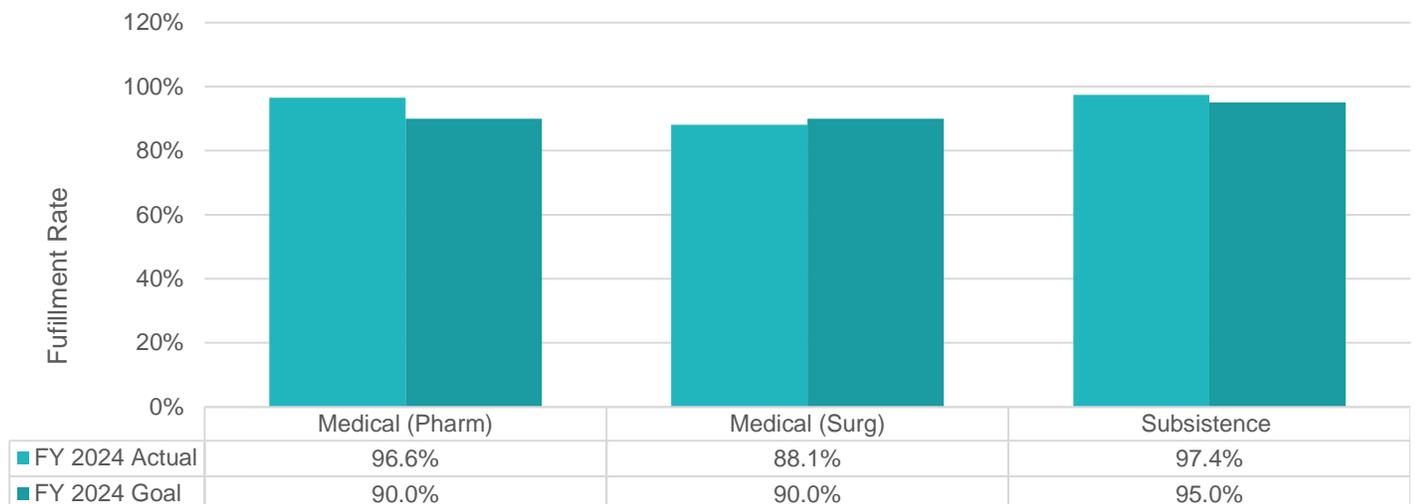


Figure 8: Prime Vendor Fulfillment Rate

DLA WCF Performance Measure 4: Energy Fuel Sales in Dollars by DoD Component

This performance measure relates to the following objectives:

- OBJECTIVE 1.1** Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments;
- OBJECTIVE 1.2** Partner with customers at the wholesale and retail levels to address Service-specific challenges and develop solutions; and
- OBJECTIVE 2.1** Implement a deliberate, enterprise-wide approach to Whole of Government support

For the year ended September 30, 2024, DLA Energy budgeted to sell \$10.8 billion of fuel to DoD Agencies, and actual fuel sales to DoD components were \$10.7

billion. DLA Energy reports revenues on a net basis (gross revenues less direct cost).

Energy Fuel Sales in Dollars by DoD Component (\$ in Millions)

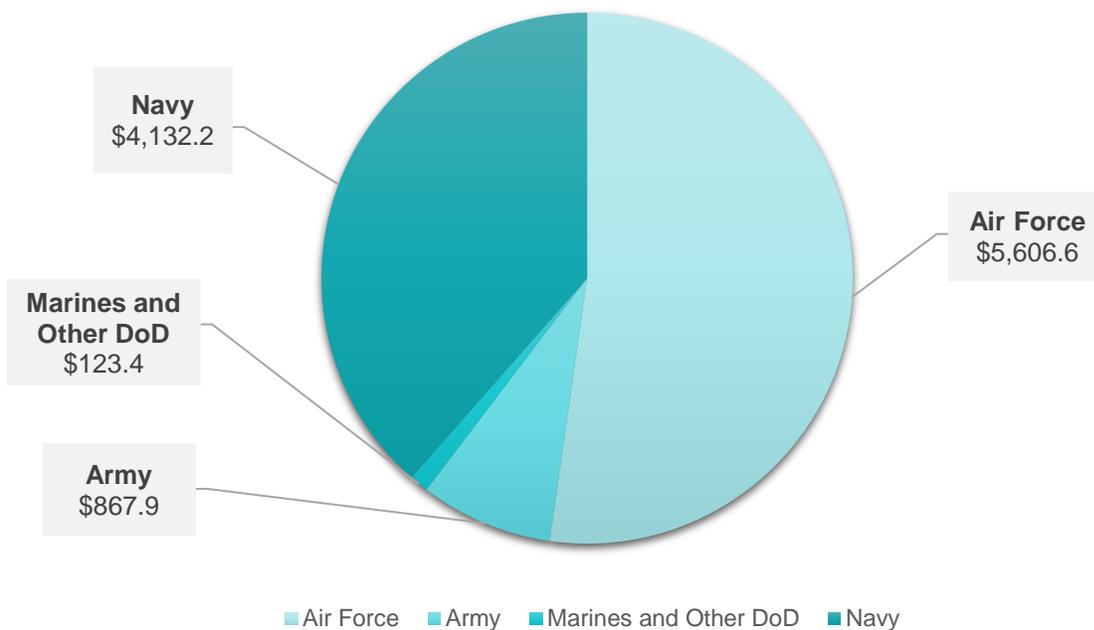


Figure 9: Energy Fuel Sales in Dollars by DoD Component

DLA WCF Performance Measure 5: Energy Fuel Sales in Barrels by DoD Component

This performance measure relates to the following objectives:

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

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

The DLA WCF supports other DoD Agencies' operations through fuel sales. This allows for increased interagency support through self-sustainment of fuel. For the year ended September 30, 2024, DLA Energy budgeted to sell 73.0 million barrels to DoD Agencies, and actual fuel sales to DoD components were 68.6 million barrels. Demand affects actual fuel sales year-over-year, and DoD's mission dictates the amount of fuel

DoD purchases. For example, a decrease in training or flying hours decreases demand for fuel from DoD components, resulting in fewer purchases during the year. WCF Energy continuously evaluates fuel purchase, storage, and distribution processes, and will continue to implement cost-justified modifications to increase efficiency and fuel availability in future periods.

Energy Fuel Sales in Barrels by DoD Component

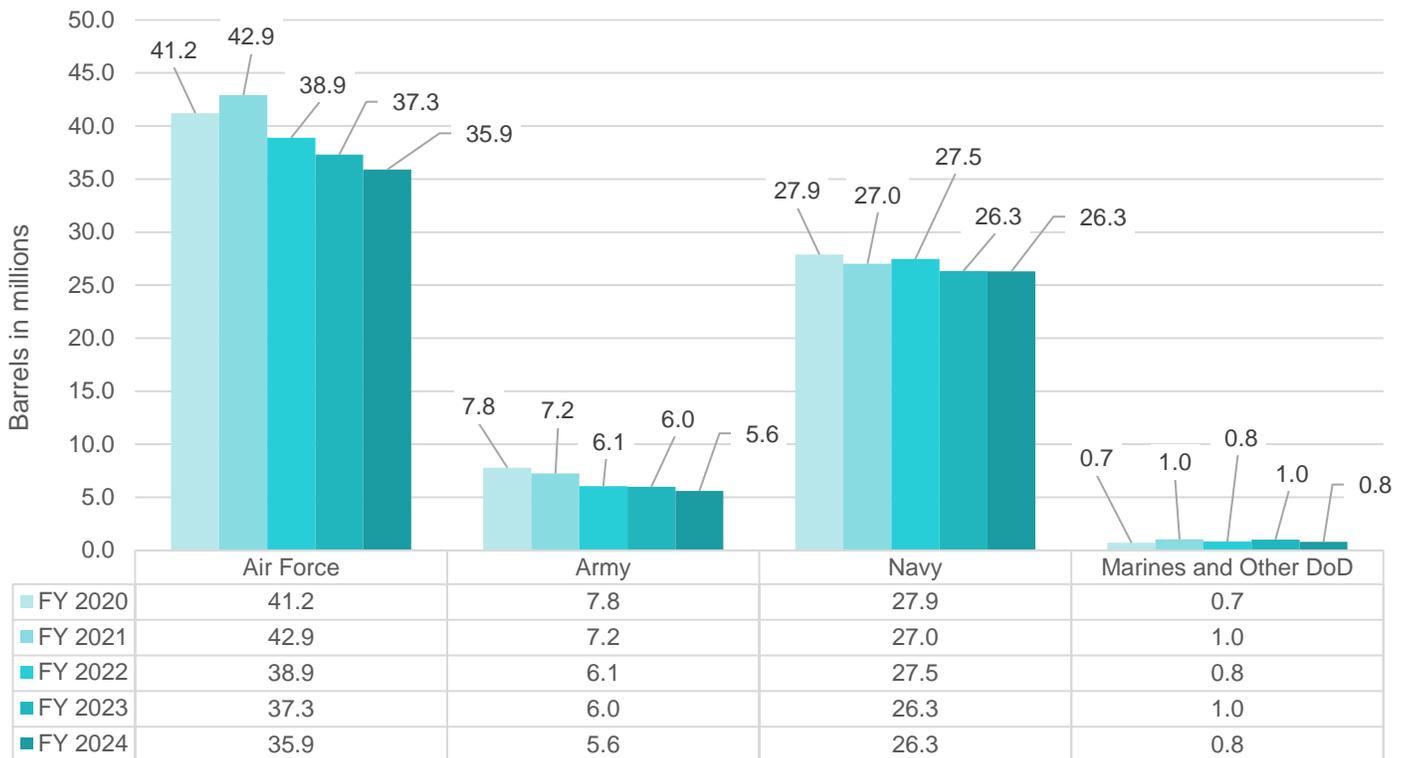


Figure 1o: Fuel Sales in Barrels by DoD Component



 **AIR REFUEL**

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

Energy Fuel Sales in Barrels by Non-Federal Customer

The DLA is authorized to provide its services to the public by selling fuel to various non-Federal parties. By doing so, DLA is building partnerships with non-Federal customers, as well as international partners. For the year ended September 30, 2024, DLA Energy budgeted to sell 7.0 million barrels to non-Federal customers,

and actual fuel sales to non-Federal customers were 6.0 million barrels. WCF Energy will continuously evaluate fuel purchases, storage, and distribution processes, and plans to implement cost-justified modifications to increase efficiency and fuel availability in future periods.

Energy Fuel Sales in Barrels by Non-Federal Customer

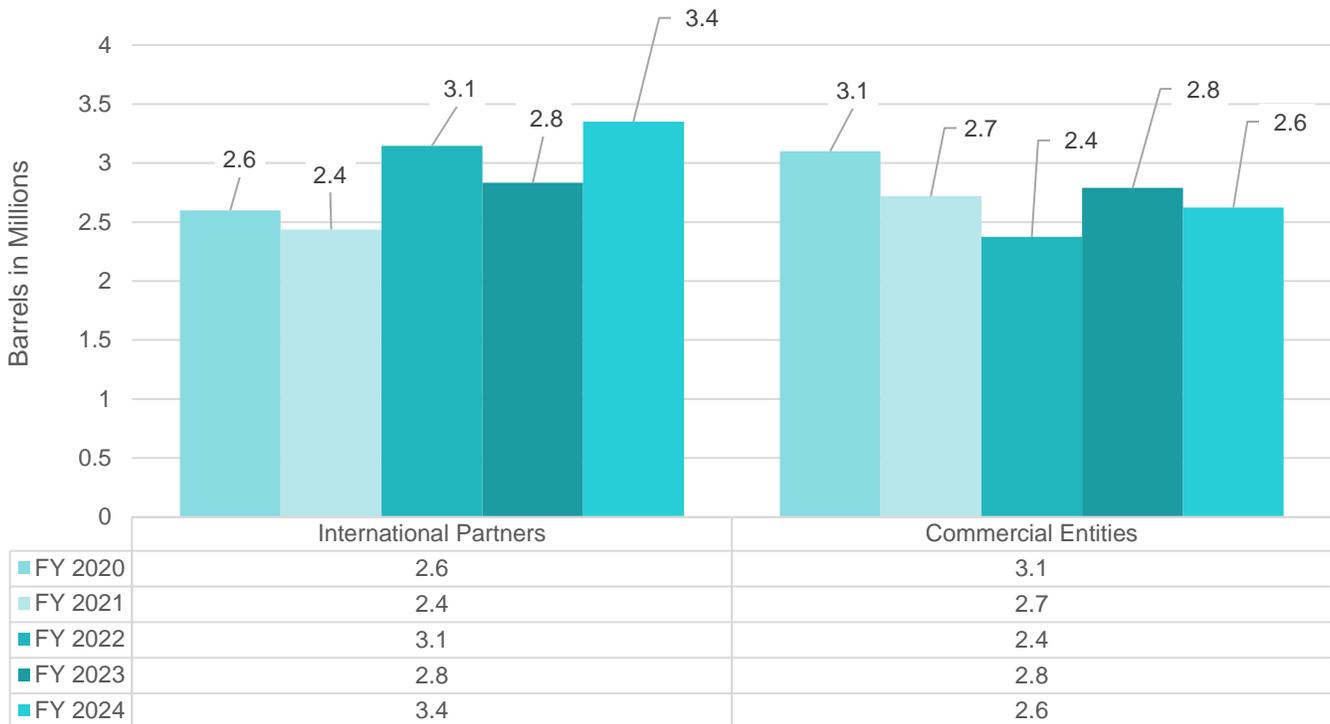


Figure 11: Energy Fuel Sales in Barrels by Non-Federal Customers

Energy Fuel Sales in Barrels by Federal Civilian Agency

In addition to providing fuel to DoD components and non-Federal entities, DLA WCF also sells fuel to Federal Civilian Agencies. DLA WCF supports other Federal Agencies as they embark on their daily activities and accomplish their missions. DLA wholly supports the government and the entire nation through its supply of fuel. For the year ended September 30, 2024, DLA

Energy budgeted to sell 4.3 million barrels to Federal Civilian Agencies. Actual fuel sales to Federal Civilian Agencies were 3.5 million barrels. WCF Energy will continuously evaluate fuel purchases, storage, and distribution processes, and plans to implement cost-justified modifications to increase efficiency and fuel availability in future periods.

Energy Fuel Sales in Barrels by Federal Civilian Agency

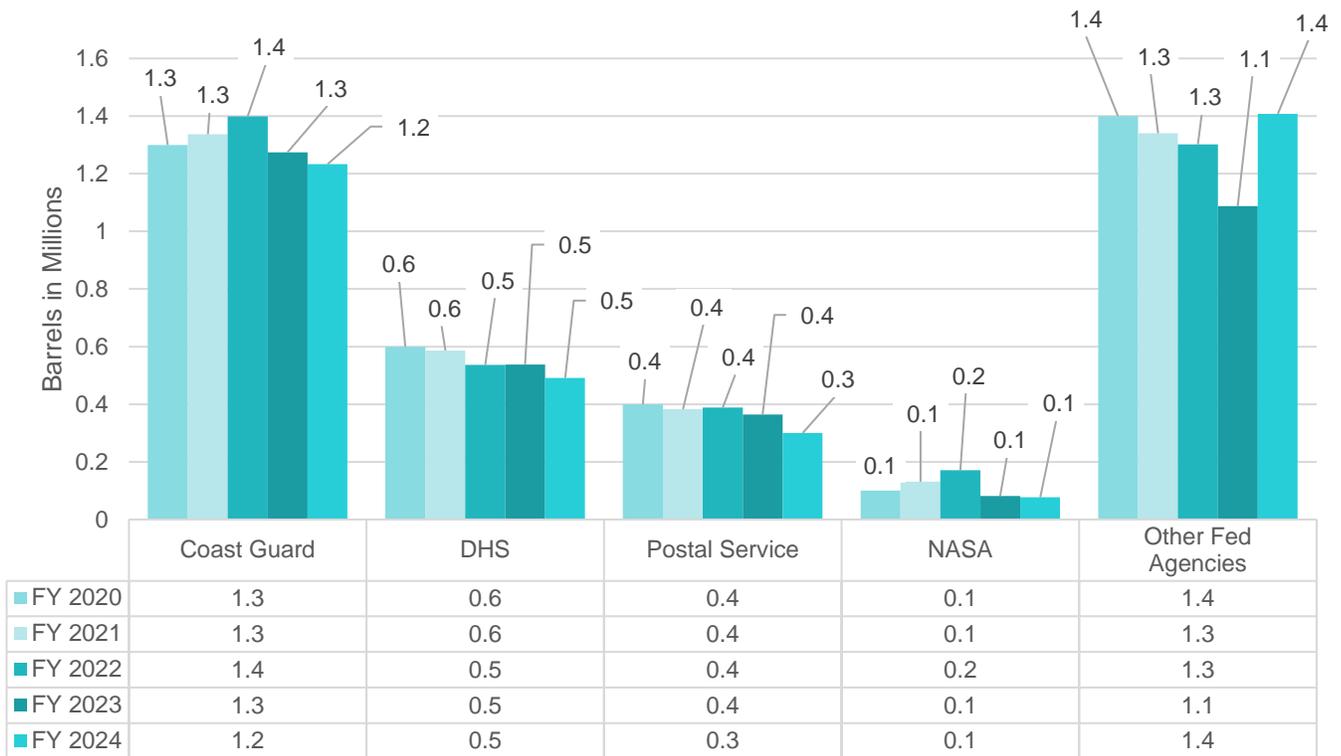


Figure 12: Energy Fuel Sales in Barrels by Federal Civilian Agency

GENERAL FUND

DLA GF Performance Measure 1: O&M and RDT&E Defense Agencies Initiative Program

This performance measure relates to the following objectives:

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

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

OBJECTIVE 3.2: Provide greater financial transparency to customers

The Defense Agencies Initiative (DAI) is a financial management system of nine integrated business processes as displayed in Figure 13 below. The system provides real time, web-based accessible capabilities for financial managers and other DoD employees to make sound business decisions in support of the Warfighter. Currently, 30 Defense Organizations use DAI, including Defense Contract Audit Agency (DCAA), Defense Information Services Agency (DISA), United States Marine Corps (USMC), Missile Defense Agency (MDA), Defense Finance and Accounting Service (DFAS), DMEA and Na-

val Special Warfare (NSW). The DAI program continually requires innovation to meet the current dynamic technological and operational environment. In addition to O&M funding, the program also receives allotments through DLA GF RDT&E appropriations. For FY 2024, DAI was allotted \$100.0 million of O&M funds, which represents 21.5% of DLA's total O&M appropriation of \$464.6 million. For 2024, DAI was allotted \$28.5 million of RDT&E funds, which is 10.5% of DLA's total RDT&E appropriation of \$270.6 million.

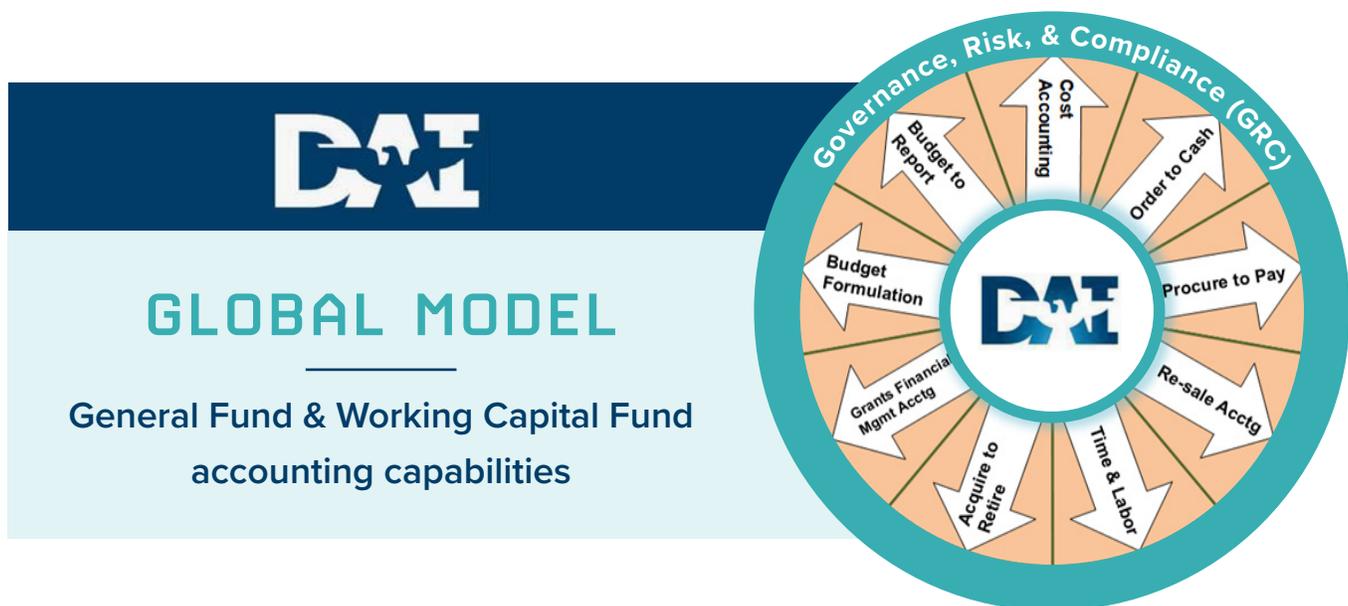


Figure 13: DAI's Nine Integrated Business Processes

For FY 2024, DAI targeted to provide assurance that:

- DAI implemented and executed an auditable financial management system to support customer organizations' financial end-to-end processes. DAI received an unmodified opinion in a System and Organization Controls 1 (SOC 1) Type 2 report for the period October 1, 2023, through June 30, 2024 (latest available). (Targets O&M and RDT&E)
- DAI met the 98.0% desired performance level objective for the system performance availability (i.e., percent system is online and available to end users) and the 95.0% threshold for minimum acceptable performance. As displayed in Figure 14, DAI 2024 system availability exceeded the objective. (Targets O&M)
- DAI interfaces had data integrity checks in place to ensure no loss or corruption of data during transmission, as well as no loss of interoperability across business systems (i.e., timeliness and accuracy of data transfers) with a targeted objective of 98.0% and a 95.0% threshold. As displayed in Figure 14, DAI timeliness and accuracy for 2024 met and exceeded the objective. (Targets O&M and RDT&E)

- DAI successfully deployed Global Model capabilities to the DFAS and NSW in accordance with its implementation plan. (Targets O&M and RDT&E)
- DAI implemented Global Model capabilities for CYBER Command (CYBERCOM) in accordance with its implementation plan. (Targets O&M and RDT&E)

In FY 2024, DAI received an unmodified opinion on all DAI control objectives design and operating effectiveness of the control objectives stated above. No adverse performance trends were identified during FY 2024. The reported performance information maps to the DAI Performance Baseline requirements. This information is regularly reviewed with user organizations and DAI leadership. The review includes series of system technical evaluations and Authorization to Proceed (ATP) decisions. During November 2024, DAI will migrate application hosting from DISA to commercial Cloud hosting. The shift to Cloud hosting is intended to improve scalability of the application to allow for growth in using organizations, maximize supportability and reduce cost.

DAI Operating Metrics						
	FY 2024 Threshold	FY 2024 Objective	FY 2024 Actual	FY 2023 Threshold	FY 2023 Objective	FY 2022 Actual
System Availability	95.00%	98.00%	99.33%	95.00%	98.00%	98.85%
Timeliness and Accuracy of Data Transfers	95.00%	98.00%	99.80%	95.00%	98.00%	99.77%

Figure 14: DAI Operating Metrics

DLA GF Performance Measure 2: Defense Microelectronics Activity

This performance measure relates to the following objective:

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

The Defense Microelectronics Activity (DMEA) provides support for the Department by providing a guaranteed and trusted source of supply of microelectronics parts that are essential to combat operations. In addition, DMEA provides the rare technology and acquisition capabilities to develop, manage and implement innovative microelectronic solutions to enhance mission capability for customers across the department. DMEA provides decisive, quick turn solutions for defense, intelligence, special operations, cyber and combat missions across the department which include:

- Organic engineering services and production of microelectronic parts
- Acquisition of microelectronic foundry production, through the DMEA Trusted Access Program Office
- Accelerated acquisition of microelectronic development solutions in the defense industry utilizing the Advanced Technology Support Program and leveraging the DMEA microelectronic manufacturing capabilities
- Over 100 cooperative agreements with industry

DMEA assists hundreds of Departments' programs every year, such as the Combatant Commands' Special Operations, Cyber, Intelligence, and the Radiation-Hard communities. DMEA has provided its specialized engineering assistance and capabilities to older systems, current systems, and even to programs not yet in the production phase. This includes modernization efforts for the Space Awareness and Global Exploitation system, delivery of counter rocket, artillery and mortar, and Counter Unmanned Aerial Systems missions to U.S Africa Command (AFRICOM), U.S Central Command (CENTCOM), U.S European Command (EUCOM), and U.S Indo-Pacific Command (INDOPACOM) which support and improve the effectiveness of counter Unmanned Aircraft Systems, prototype development of a B-2 Flight Control Computer, and Pacific Missile Range Facility Test Range improvements in support of Missile Defense Agency test missions among many other programs.

Specific accomplishments include:

- Manufactured 50 Phase 2 Secure-Data Transfer Device (S-DTD) prototypes and distributed for evaluation and testing.
- Developed Interface Adaptor Kit (IAK) for the United States Air Force (USAF) F-15 DTM-II Removable Memory Module (DRMM) system 'Bamboo Eagle' support.

DLA GF Performance Measure 3: RDT&E Manufacturing Technology Program

This performance measure includes six programs under GF RDT&E for the following DLA objectives:

OBJECTIVE 1.1: Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments; **OBJECTIVE 1.2:** Partner with customers at the wholesale and retail levels to address Service-specific challenges and develop solutions; **OBJECTIVE 1.3:** Proactively support the DoD Nuclear Enterprise and Space Enterprise; **OBJECTIVE 2.1:** Implement a deliberate, enterprise-wide approach to Whole of Government support; **OBJECTIVE 3.3:** Provide next generation customer service, including a customer feedback mechanism; **OBJECTIVE 4.1:** Expand industry engagement to foster innovation and maximize value for our customers **OBJECTIVE 4.2:** Improve the end-to-end post-award segment to enable collaborative customer support, increase responsiveness, and manage costs; **OBJECTIVE 4.3:** Develop a market intelligence capability to manage supply chain risk and drive best value; **OBJECTIVE C.1:** Transformational information technology capabilities; and **OBJECTIVE C.2:** Advanced Analytics and Automation

The DLA GF ManTech program enables DLA to explore and develop innovative solutions to improve and modernize manufacturing processes directly aligned to the National Defense Strategy (NDS). The program aims to rebuild military readiness for a more lethal force and achieve reform through greater performance and affordability, predictive analytics, and continuous communication.

For FY 2024, DLA ManTech focused on the Subsistence Network (SUBNET), Casting R&D (MAN-PA), Forging R&D (MAN-PF), Battery Network (BATNET), Additive Manufacturing (AM) and Advanced Microcircuit Emulation (AME) programs. Below highlights programs' accomplishments:

SUBNET Program

This program consists of research, development, test and evaluation on multiple projects to enhance the efficiency, quality, and safety of the DOD subsistence supply chain. The SUBNET program collaborated with community partners (military services, federal agencies, industry, and academia) to leverage the latest technologies and innovations. Accomplishments include:

- Supported and executed R&D projects in modernization and readiness analysis of a joint food management system.
- Improved logistics modeling for microbiological testing of Meals Ready-To-Eat (MREs).
- Improved subsistence visibility with barcode standards for Prime Vendors and Military Service stakeholders.
- Investigated sustainable packaging options for MREs, and investigated and determined the per- and polyfluoroalkyl substances (PFAS) sources throughout the MRE assembly line.
- Advanced Small Business Innovation Research (SBIR) topics in Subsistence and saw promising results with separation, compositing, recycling, and repurposing system; deployable assembly kitting platform for Unitized Group Rations (UGR); robotic automations in dining facilities; technological and operational improvements in cold-weather combat rations heating and hydration modules.

MAN-PA Program

This program consists of research and development efforts for ensuring a viable and competitive metal casting industrial base and providing affordable and high-quality parts for the Warfighter by using partnerships to improve the material, manufacture, and procurement of defense parts. Accomplishments includes:

- Educated the work force on industrial practices to better solicit and procure parts with cast content.
- Improved DLA's casting procurement agility and supply base to support warfighter readiness.
- Enhancements that assisted in reducing lead times and no-bid situations.
- Development of software utilized knowledge and technics to provide estimates based on design criteria and identification of cast components from within the technical data package.
- Implemented a virtual die casting simulation, other tools and resources for workforce development.
- Modeled and simulated for pouring and solidification of castings in order to develop higher strength castings through the use of ceramic components and lattice structure, conformal cooling design for die casting dies and inserts, die casting of high temperature alloys, and developing coatings for dies and tooling to increase quality and reduce costs.

MAN-PF Program

This program consists of improvement and sustainment of the forging manufacturing industrial base to ensure the DoD continues to have viable sources for the procurement of quality parts with forged content. Accomplishments include:

- Improved the manufacturing process and materials to decrease material cost.
- Expanded and strengthened our collaboration with suppliers, working directly with these suppliers to maintain a viable and competitive forging supply chain.
- Workforce development that ensured a viable future workforce.
- Improvements to coatings for dies and materials which reduced environmental impact from sprayed lubricants.
- Increased product quality and reduced waste and lead time and utilizing sensors and sensor technology to monitor the forging manufacturing process.

BATTNET Program

This program focuses on transitioning viable solid-state electrolyte technologies into cells and batteries for MIL-32383 soldier system batteries. Several cell and battery types, with excellent safety characteristics for military performance requirements, were submitted to US Army Combat Capabilities Development Command (DEVCOM) and Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance (C5ISR) for evaluation. Accomplishments include:

- Completed an advanced manufacturing technologies project for light weight, bipolar lead-acid batteries, and advanced batteries for the Bradley Fighting Vehicle turret power, which were submitted to US Army DEVCOM GVSC for evaluation.
- Finished improving the production capabilities for lithium anodes used on critical MIL-32271 batteries.

- Completed first stage manufacturing capabilities for high performance bipolar designs in military aviation MIL-8565 lead-acid requirements.
- Launched two projects for addressing manufacturing capabilities - one for emerging DoD-wide nickel-zinc batteries and one for critical ground MIL-32565 and soldier MIL-32383 standard batteries.
- Continued to manage nine SBIR Phase 2 projects for military battery manufacturing objectives and prepared a new topic DLA 231-D06 on lithium-ion battery management system (BMS) cyber-security.

AM Program

This program supports the Joint Additive Manufacturing Acceptability (JAMA) effort, and Military Partner Project Engagement (MPPE). JAMA III is in its final stages of meeting its goals as well as requirements in preparation for JAMA IV. JAMA IV will target the application of the efforts of JAMA I-III, to verify their ability to function as a resource for use. The requirements and specifications are being developed in collaboration with DLA, Deloitte, and OSD. Accomplishments include:

- Developed Initial Quality Parts List (QPL) and Quality Manufacturers list (QML) for review and use as a tool within the enterprise by the Military Services.

- Successfully executed Military Partner projects with US Army DEVCOM and C5ISR with the development, testing, and production of the Waveguide and Joint Biological Point Detection System (JBPDS).
- Phase two of the Waveguide endeavor is currently underway.

AME Program

This program centers on the development of manufacturing technologies required to provide a reliable and trusted, domestic means of mitigating obsolescence in legacy microcircuits. Accomplishments include:

- Transitioned a new capability for re-establishing sourcing for dual port memory microcircuits to full scale production.
- Continued development of additional manufacturing capabilities to support legacy 20-volt and 40-volt analog microcircuits, as well as radiation hardened analog microcircuits.
- Continued supporting an emerging supply chain risk in microcircuit cases with using additive manufacturing.



MAINTENANCE TRAINING

A soldier assigned to the 1st Armor Brigade, 3rd Infantry Division works with a Ukrainian soldier during M109 self-propelled howitzer maintenance training at Grafenwoehr Training Area, Germany. The course is provided by the U.S. and Norway as part of their respective security assistance packages. **Photo by:** Army Spc. Nicko K. Bryant Jr. Fueling System Alterations, Little Rock AFB, AR

DLA GF Performance Measure 4: MILCON Military Construction

This performance measure relates to the following objective:

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

The MILCON program provides funds for major construction to replace or renovate DoD fuel depots and Industrial Capabilities Program (ICP) facilities around the world. DLA GF sub-allots MILCON funds to various entities such as USACE and NAVFAC, which are DLA GF’s primary design and construction agents for the MILCON program. Projects include fuel hydrant systems, numerous operations and HQ facilities, bulk fuel storage facilities, aircraft truck refill stations and government vehicle retail gas stations.

The DLA GF considers a MILCON project completed when the Construction in Process (CIP) ledger account has been reduced for the first time, reflecting the transfer of the asset to the receiving entity. Additional costs will continue to accrue in the CIP account after beneficial occupancy has occurred, while the construction contract work is being finalized. Once the contrac-

tor-submitted final invoice is paid and release of all claims has been confirmed, the project is readied for closure by the design and construction agent. A final Report of Transfer and Acceptance of Real Property (DoD Form DD1354) is produced at project closure, documenting all project costs.

For FY 2024, NAVFAC is still working to improve MILCON data reliability; a recent system migration is affecting the completeness of the disclosures presented below which only present USACE data for the last three FYs.

As shown in the figures 15, 16 and 17 below, the Facilities Modernization Division within Installation Management brought eight USACE MILCON projects to completion for the year ended September 30, 2024. The total value of this project was \$159.2 million.

DLA MILCON Project Completion - Number of Projects Completed

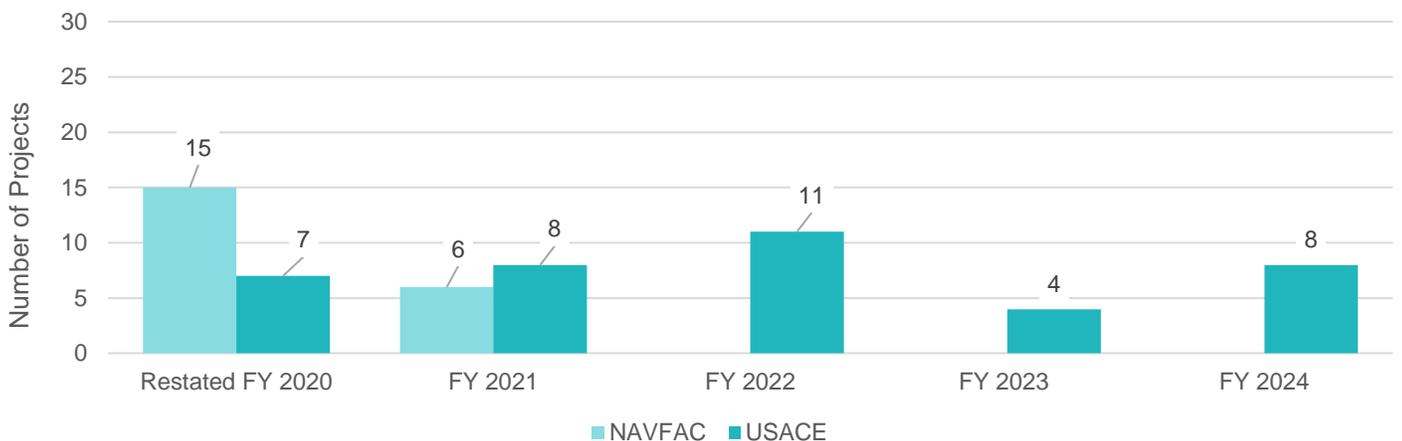


Figure 15: Completed DLA MILCON Projects by Year

DLA MILCON Project Completion Value of Projects Completed

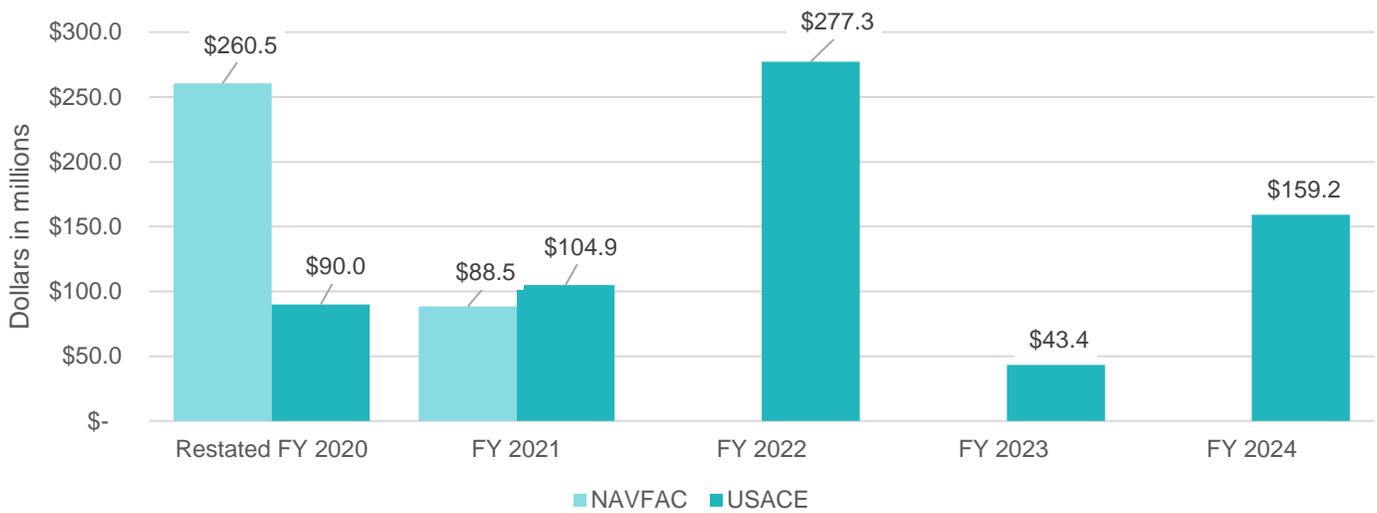
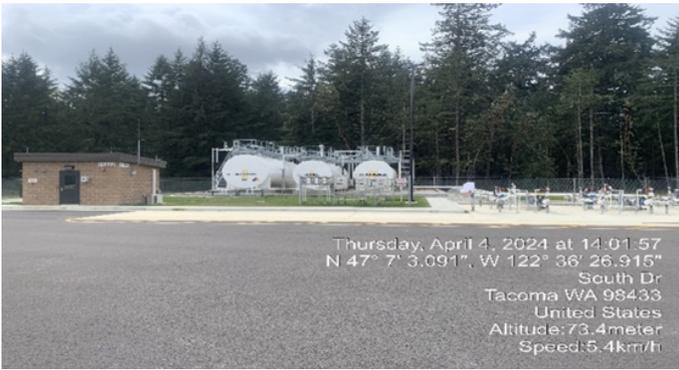


Figure 16: DLA MILCON Value of Completed Projects by Year

MILCON Projects Completed in FY 2024 (Amounts in \$)					
FY (Authorized)	Project Description	Installation / Location Name	Country	Quarter	Construction Cost
2021	Replace Fuel Facilities (Lewis North)	Joint Base Lewis-McChord (Gray AFF), WA	USA	Q2	\$ 11,019,435.58
2021	Replace Fuel Facilities (Lewis Main)	Joint Base Lewis-McChord (Gray AFF), WA	USA	Q2	\$ 11,433,311.53
2017	Replace JP-8 Fuel Storage Tanks	Patrick AFB, Florida	USA	Q4	\$ 18,640,387.79
2019	Hydrant Fueling System Alterations	Little Rock AFB, AR	USA	Q4	\$ 18,893,821.98
2020	Construct Fuel Storage Complex	Tulsa IAP ANG, OK	USA	Q4	\$ 24,289,104.68
2020	Hydrant Fuel System Replacement	Ellsworth AFB, SD	USA	Q4	\$ 24,785,898.95
2021	Replace Fuel Facility	Fort Hood, TX	USA	Q4	\$ 32,799,273.83
2021	Construct Bulk Fuel Tank	Beale AFB, CA	USA	Q4	\$ 17,368,863.79
FY 2024 Total					\$ 159,230,098

Figure 17: Completed DLA MILCON Projects by Location



COMPLETED DLA MILCON PROJECTS

First Row: Replace Fuel Facilities (Lewis North), JB Lewis-McChord, WA **Second Row:** Replace Fuel Facilities (Lewis Main), JB Lewis-McChord, WA **Third Row:** Replace JP-8 Fuel Storage Tanks, Patrick AFB, Florida **Fourth Row:** Hydrant Fueling System Alterations, Little Rock AFB, AR

DLA GF Performance Measure: 5

O&M Warstopper Program

This performance measure relates to the following objectives:

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

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

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

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

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

Readiness Investments

Warstopper investments are like a catastrophe or disaster business insurance policy and deliver expedited products to our customers (i.e., Military Services) when triggered by an event (e.g., war, contingency, National Emergency, or disaster). Readiness investments support Objectives 1.3, 4.1, 4.3 and 4.4 by collecting market analysis type information to confirm industrial base risk(s) exist, foster industry innovation to resolve industrial base risk, mitigate customer contingency requirement shortfalls and enhances acquisition alternatives to effectively and efficiently improve readiness for contingencies.

Readiness Investments in industry are made when the forecasted readiness demand is higher than the commercial industry is willing or able to invest. These types of investments can occur across all DLA Supply Chains including the DoD Nuclear Enterprise items. Additionally, these industrial base measures support industry's ability to rapidly surge and potentially avoid stock spoilage due to shelf-life expiration and changes to system configurations.

An example of a Warstopper readiness investment is establishing sub-tier raw material buffers. Buffers are established when there is a first-tier readiness issue caused by a raw material production input and the material is used by more than one producer. They are established with sub-tier suppliers to ensure the material title, certifications, pedigree, and warranty are passed on to the first-tier producer (e.g., manufacturer) or sub-tier component manufacturer. Material from these buf-

fers can be directed towards many requirements including the DoD Nuclear Enterprise. The buffer material is not Government Furnished Material and the investment required is lower in cost than an end item investment and can have very wide application across the Defense Industrial Base (DIB).

Risk Analysis

Risk analysis and studies are used to determine the health of selected industries, as well as maintaining DLA industrial acquisition policies, assessing the supplier on their ability to address surge and sustainment to meet readiness demand, and other program administrative duties.

The risk analysis program enables the DoD to be prepared, in the event of a potential threat to the security of the U.S., to take actions necessary to ensure the availability of adequate industrial resources and production capability, including services and critical technology for National defense requirements. These risk analyses and studies are an enabler for Objectives 1.3, 2.1, 4.1 and 4.4 by providing information to the appropriate decision makers and shared with other government agencies as appropriate.

Level-1 Risk Assessment (RA) is used to determine and verify if an industrial base issue exists or not, and Level-2 RA (i.e., study) is used to assess the risk and identify any industry potential risk mitigation strategies (e.g., acquisition strategies, Warstopper investments). A Level-1 RA is typically less than 3-months and a Level-2 RA is greater than 3-months to complete.

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

This analysis presents a summary of DLA WCF and GF'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 and GF 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 and GF is responsible for the integrity and objectivity of the financial information presented in the statements and dedicated to achieving excellence in financial management.

WCF OVERVIEW FINANCIAL POSITION

The principal financial statements of DLA WCF include the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Combined Statements 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 for FY 2024 and FY 2023 is presented in the following Analysis.



POOLEE PREPS

Marines and poolees execute the annual all-hands pool function at Camp Clark Nevada, Mo., April 12, 2024. Drill instructors assigned to Marine Corps Recruit Depot San Diego attended the event to further prepare the poolees for recruit training. **Photo by:** Marine Corps Sgt. Alexis Moradian

Changes In Key Financial Measures

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

Condensed Principal Financial Statements

Financial Condition	FY 2024	FY 2023	\$	%
	(Unaudited)	(Unaudited)		
Fund Balance with Treasury	\$ 3,483.5	\$ 5,102.4	\$ (1,618.9)	-31.7%
Accounts Receivable, Net and Other	2,934.2	2,988.2	(54.0)	-1.8%
Inventory and Related Property, Net	24,141.9	23,985.0	156.9	0.7%
General PP&E, Net	885.4	775.8	109.6	14.1%
Advances and Prepayments	100.0	103.5	(3.5)	-3.4%
TOTAL ASSETS	\$ 31,545.0	\$ 32,954.9	\$ (1,409.9)	-4.3%
Accounts Payable	\$ 2,559.9	\$ 3,515.2	\$ (955.3)	-27.2%
Environmental and Disposal Liabilities	332.7	335.1	(2.4)	-0.7%
Federal Employee Benefits and Other Liabilities	492.5	568.3	(75.8)	-13.3%
Advances from Others and Deferred Revenue	4.5	159.1	(154.6)	-97.2%
TOTAL LIABILITIES	\$ 3,389.6	\$ 4,577.7	\$ (1,188.1)	-26.0%
TOTAL NET POSITION (ASSET LESS LIABILITIES)	\$ 28,155.4	\$ 28,377.2	\$ (221.8)	-0.8%
Total Gross Cost	\$ 49,129.1	\$ 45,842.8	3,286.3	7.2%
Less: Total Earned Revenue	(47,665.3)	(47,435.8)	(229.5)	0.5%
NET COST OF OPERATIONS	\$ 1,463.8	\$ (1,593.0)	\$ 3,056.8	-191.9%

Figure 18: Changes In Key Financial Measures



DLA SUPPLY CHAIN ALLIANCE CONFERENCE AND EXHIBITION

Several military tactical vehicles were on display at the exhibition hall April 24 during the DLA Supply Chain Alliance Conference and Exhibition at the Greater Columbus Convention Center in downtown Columbus, Ohio. **Photo by:** Arthur Hylton/DSCC

Financial Results Summary

Assets - What DLA WCF Owns and Manages

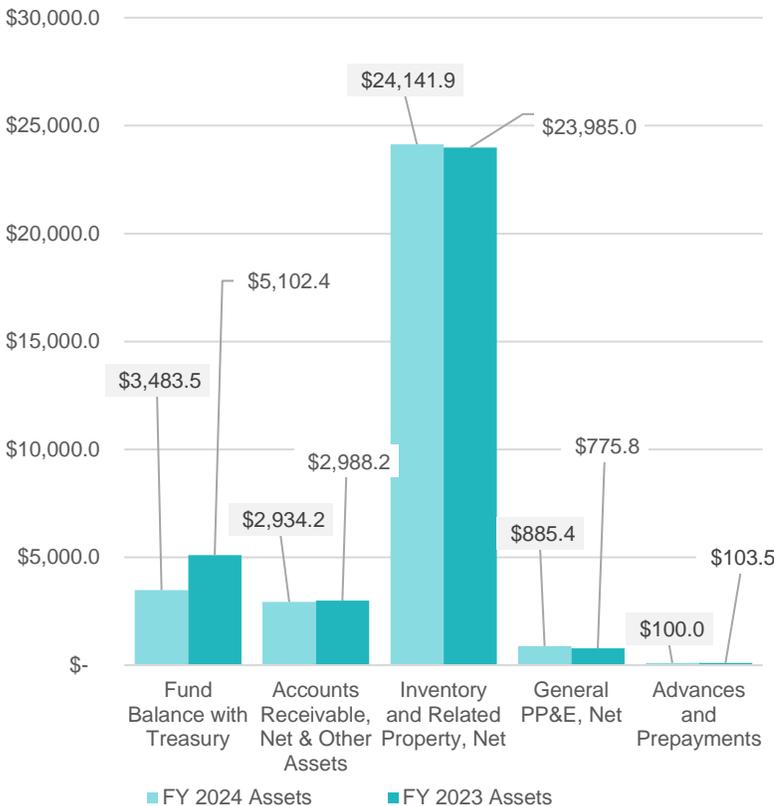
The DLA WCF owns and manages assets to accomplish its mission as the Nation's Combat Logistics Support Agency. These assets include Fund Balance with Treasury (FBwT), Accounts Receivable, Net and Other Assets, Inventory and Related Property, Net, Advances and Prepayments, and General PP&E. The DLA WCF Total Assets balance is \$31.5 billion as of September 30, 2024.

Inventory and Related Property, Net, represents DLA WCF's largest asset with an amount of \$24.1 billion or 76.5% of the WCF Total Assets as of September 30, 2024. Inventory and

Related Property, Net consists of supply chain materials, equipment and repair parts, worldwide military supplies, fuel and IH, primarily all held for sale. FBwT represented \$3.5 billion or 11.0% of Total Assets as of September 30, 2024. FBwT decreased by \$1.6 billion or 31.7% primarily due to a reduction in collections combined with an increase in disbursements related to DLA Energy. The decrease was driven by the sale of fuel at an effective rate lower than the purchase price.

Two Year Trend in Components of Total Assets (Unaudited)

As of September 30, 2024 and 2023 (\$ in millions)



Total Assets (Unaudited)

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

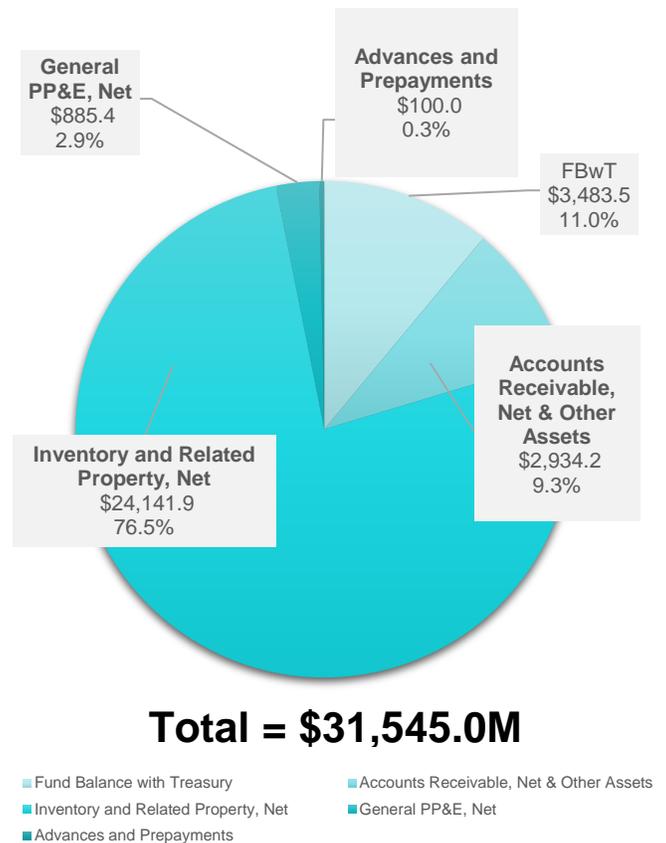


Figure 19: Total Assets by Component as of September 30, 2024 and 2023

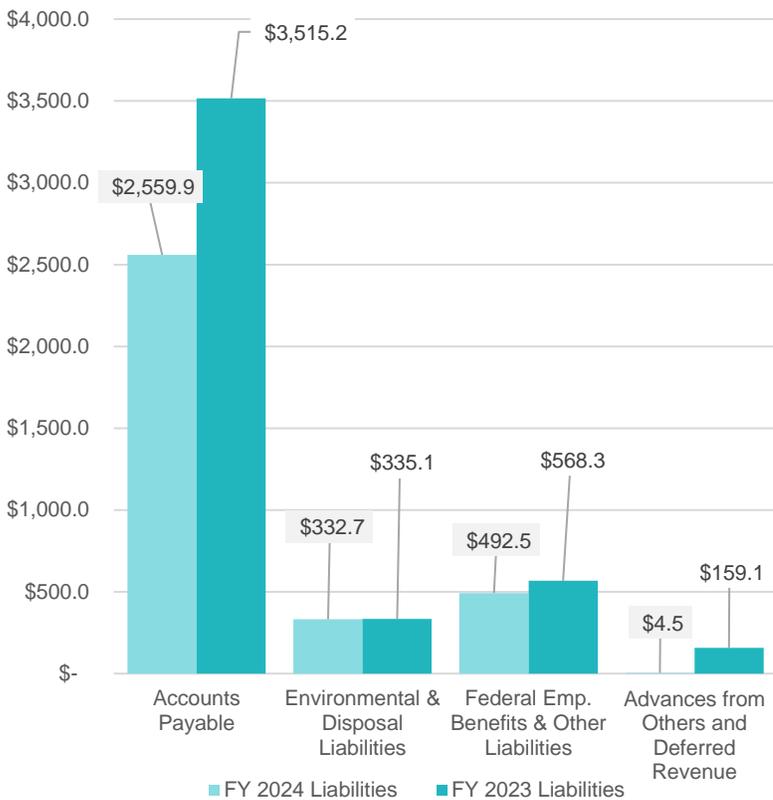
Liabilities - What DLA WCF Owes

The DLA WCF liabilities are comprised of: (1) amounts owed to Federal and public entities for goods and services paid but not yet provided; (2) amounts owed to DLA WCF employees for wages and future benefits; (3) Environmental and Disposal Liabilities (E&DL); (4) Advances from Others and Deferred Revenue; and (5) Other Liabilities. The DLA WCF Total Liabilities balance is \$3.4 billion as of September 30, 2024.

The DLA WCF primary liability is Accounts Payable with a balance of \$2.6 billion or 75.5% of the WCF Total Liabilities. This balance decreased by \$955.3 million or 27.2%, primarily due to: (1) The reduction in DLA Energy accounts payable which can be attributed to a decrease in vendor payables as a result of lower purchases quantity combined with a decrease in the average cost per barrel; (2) a disbursement of a \$172.0 million settlement agreement that was accepted in FY 2024.

Two Year Trend in Components of Total Liabilities (Unaudited)

As of September 30, 2024 and 2023 (\$ in millions)



Total Liabilities (Unaudited)

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

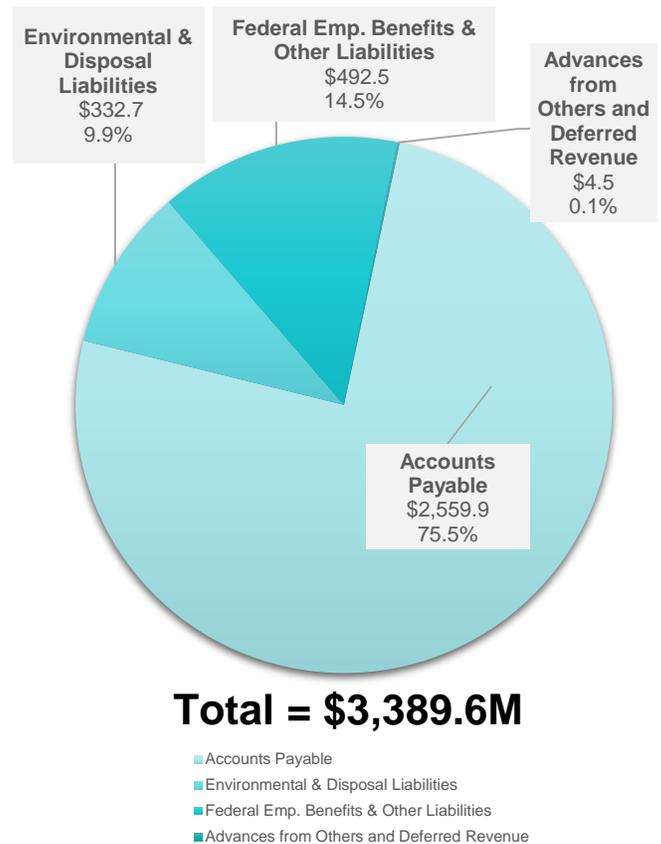


Figure 20: Total Liabilities by Component as of September 30, 2024 and 2023

Net Position - What DLA WCF has Done Over Time

Net position represents the accumulation of revenue and expenses, and unexpended appropriations and other financing sources transferred in/out since inception, as represented in DLA WCF balances reflected in the Statements of Changes in Net Position. As of September 30, 2024, Total Net Position largely consisted of Cumulative Results of

Operations of \$27.3 billion, derived from producing goods and providing services for sale to Federal and public entities. This function is the primary source of sustaining DLA WCF in its key role of logistically supporting missions of America's Warfighters.

Net Cost of Operations - DLA WCF Net Operating Results

The DLA WCF operates under the mission of Sustain Warfighter readiness and lethality by delivering proactive global logistics in peace and war. DLA WCF has three activity groups: Energy, SCM, and Document Services. The three activity groups comprise a single, integrated business enterprise.

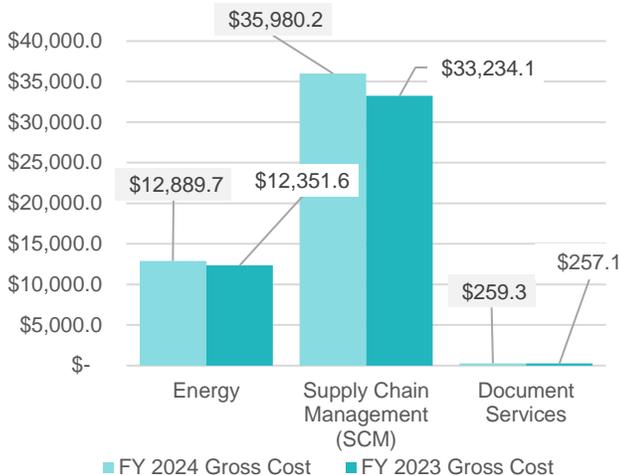
For the fiscal year ended September 30, 2024, these three activity groups incurred Total Gross Costs of \$49.1 billion and recognized Total Earned Revenue of \$47.7 billion, resulting in a Net Cost of Operations of \$1.5 billion. Compared to the

previous year, the Net Cost of Operations increased by \$3.1 billion. This change is due to an increase in Gross Costs by \$3.3 billion, which was partially offset by an increase in Earned Revenue of \$229.5 million.

The rise in Gross Costs was primarily driven by the acquisition of materials and services, notably within DLA SCM - Troop Support Construction & Equipment. Major expenditures included Air Rapid Response Kits, Reusable Respirators for the Army, and Swing-Arm Machine Gun Mounts for the Army.

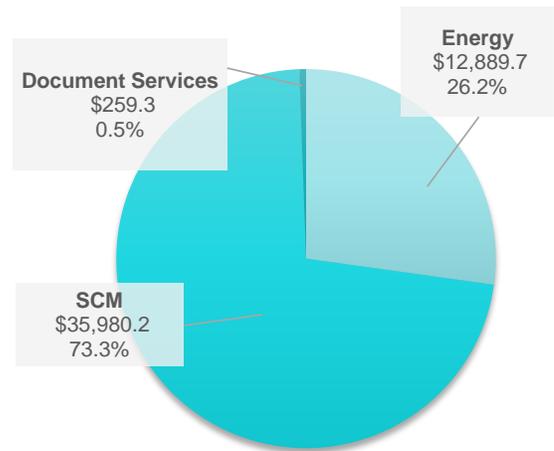
Two Year Trend in Gross Cost by Activity Group (Unaudited)

For the Years Ended September 30, 2024 and 2023
(\$ in millions)



Total Gross Cost (Unaudited)

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



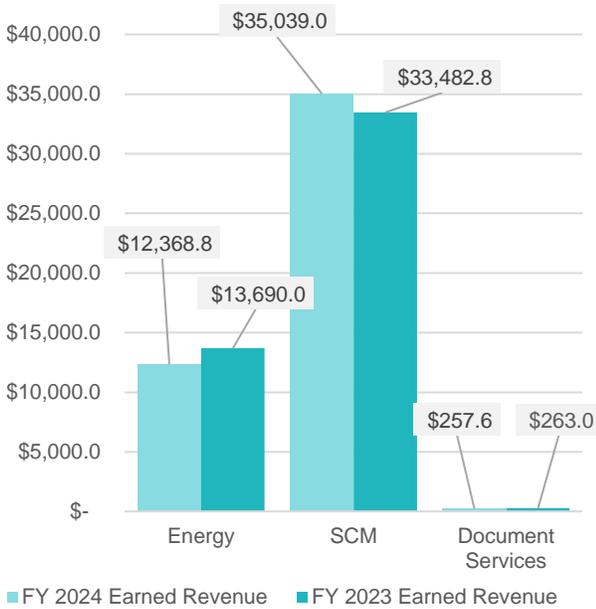
Total = \$49,129.1M

■ Energy ■ SCM ■ Document Services

Figure 21: Gross Cost by Activity for the years ended September 30, 2024 and 2023

Two Year Trend in Earned Revenue by Activity Group (Unaudited)

For the Years Ended September 30, 2024 and 2023 (\$ in millions)



Total Earned Revenue (Unaudited)

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

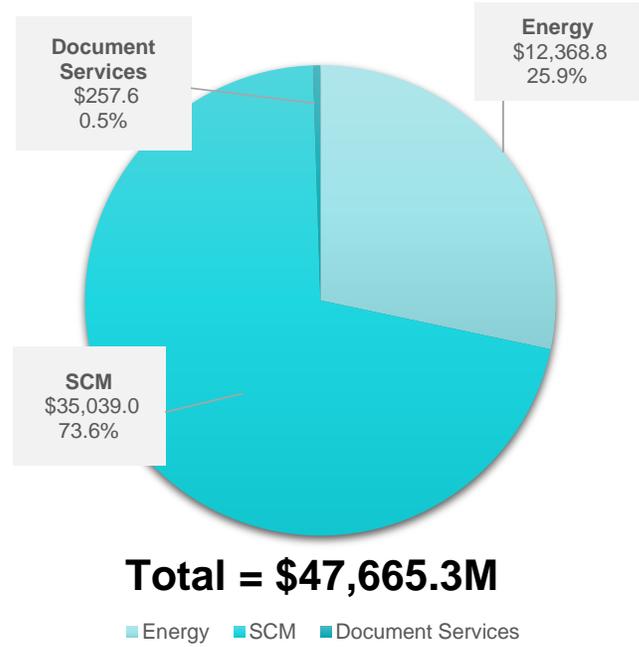


Figure 22: Earned Revenue by Activity for the years ended September 30, 2024 and 2023



DLA DIRECTOR'S FIRST LOOK

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

Budgetary Activity - DLA WCF Budgetary Resources and Obligations

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The budget represents the plan for efficiently and effectively achieving the strategic objectives to carry out the mission and to ensure that DLA WCF manages its operations within the appropriated amounts using budgetary controls. Two key components of budgetary activity include Budgetary Resources and Obligations. Budgetary resources are funds available to DLA WCF to incur obligations, to pay for goods and services, and to sell products to customers.

Obligations are balances for which there has been legally binding action during the year.

For the year ended September 30, 2024, Total Budgetary Resources were \$56.8 billion and Total Obligations were \$56.3 billion. Total Budgetary Resources decreased \$1.8 billion or 3.1% primarily due to a decrease in transfer funds and contract authority for DLA Energy in FY 2024 due to a decrease in funding received within the Defense Working Capital Fund (DWCF).

Two Year Trend in Status of Budgetary Resources and New Obligations (Unaudited)

For the Years Ended September 30, 2024 and 2023 (\$ in millions)

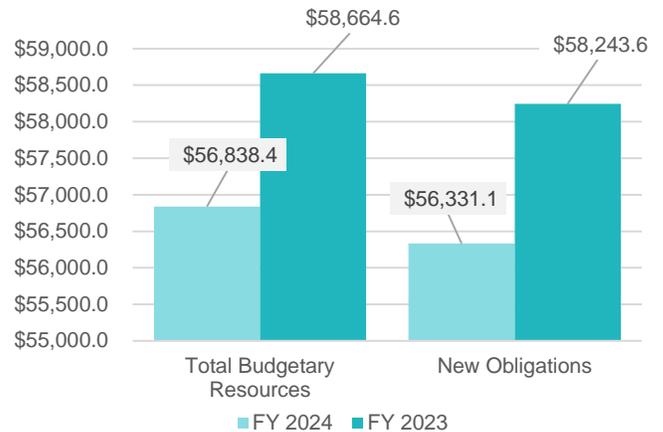


Figure 23: Total Budgetary Resources and New Obligations for the years ended September 30, 2024 and 2023



MARINES MANEUVER

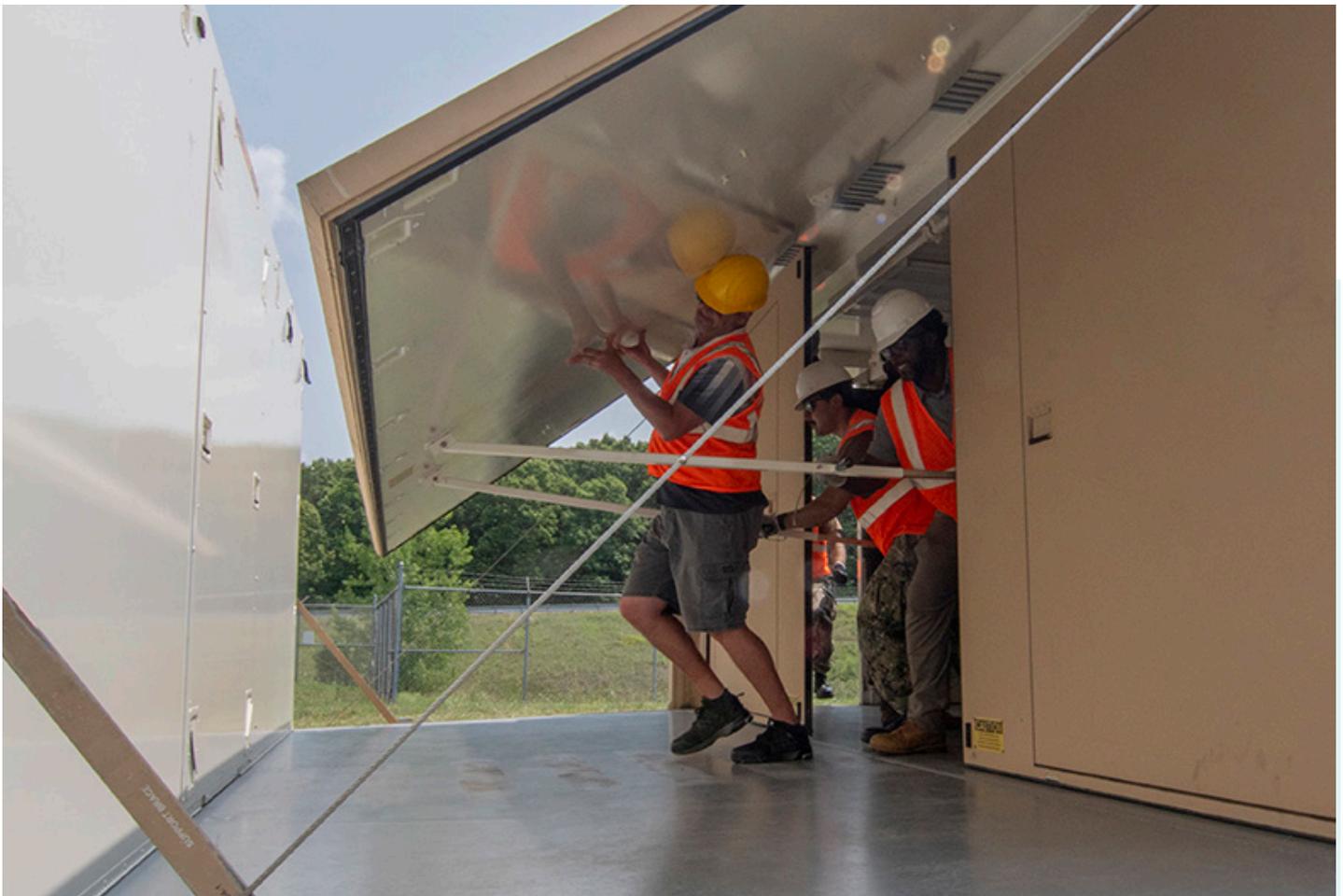
U.S. and Dutch marines prepare to drive during a tactical vehicle familiarization course at Marine Corps Air Ground Combat Center Twentynine Palms, Calif., Oct. 19, 2022. **Photo by:** Marine Corps Lance Cpl. Christian

GF OVERVIEW FINANCIAL POSITION

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

A summary of DLA GF's changes in key financial measures for FY 2024 and FY 2023 is presented in the following Analysis of Key Financial Measures. The table

represents assets on hand to pay liabilities and the corresponding net position. The net cost of operations is the gross costs of DLA GF's five programs: O&M, PDW, RDT&E, Family Housing, and MILCON, less earned revenue. Because of the materiality and nature of the program, DLA combines the Family Housing Program with MILCON for reporting purposes in the Statements of Net Cost. The Financial Results Summary section also includes an explanation of significant changes for each DLA GF financial statement.



DISPOSITION READINESS

Training attendees construct a mobile office during the 2023 Agency Contingency Operations Readiness event in Battle Creek, Michigan, in July. The training helps prepare personnel from DLA Disposition Services, DLA Distribution, and members of the DLA Rapid Deployment Teams for skills they'll need when supporting servicemembers at expeditionary locations downrange. **Photo By:** Jeff Landenberger

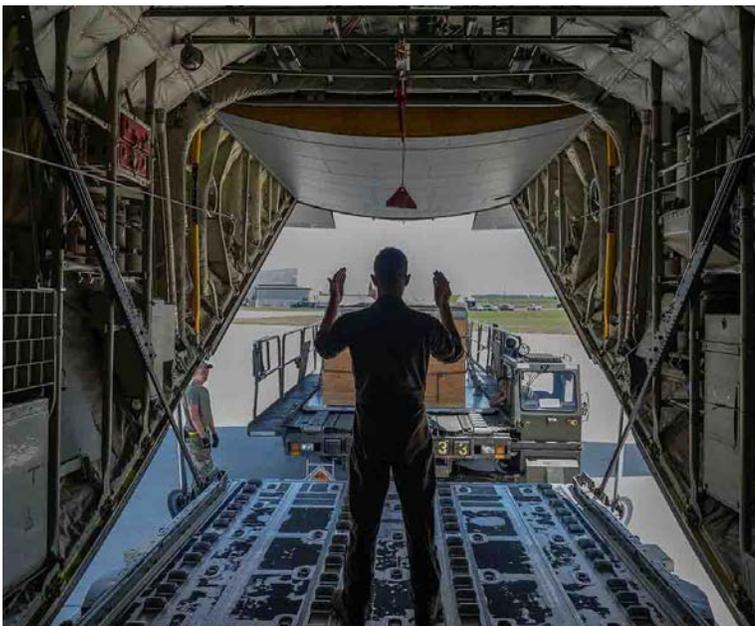
Changes In Key Financial Measures

As of and for the Years Ended September 30, 2024 and 2023 (dollars in millions)

Condensed Principal Financial Statements

Financial Condition	FY 2024	FY 2023	\$	%
	(Unaudited)	Restated (Unaudited)		
Fund Balance with Treasury	\$ 2,148.0	\$ 2,251.3	\$ (103.3)	-4.6%
General PP&E, Net	444.5	496.7	(52.2)	-10.5%
Advances and Prepayments	28.9	113.9	(85.0)	-74.6%
Accounts Receivable and Other Assets	6.8	14.9	(8.1)	-54.4%
TOTAL ASSETS	\$ 2,628.2	\$ 2,876.8	\$ (248.6)	-8.6%
Accounts Payable	\$ 87.7	\$ 73.1	\$ 14.6	20.0%
Environmental and Disposal Liabilities	103.4	76.4	27.0	35.3%
Federal Benefits and Other Liabilities	16.3	14.8	1.5	10.1%
TOTAL LIABILITIES	\$ 207.4	\$ 164.3	\$ 43.1	26.2%
TOTAL NET POSITION (ASSET LESS LIABILITIES)	\$ 2,420.8	\$ 2,712.5	\$ (291.7)	-10.8%
Total Gross Cost	\$ 980.8	\$ 843.2	\$ 137.6	16.3%
Less: Total Earned Revenue	\$ (84.0)	\$ (76.2)	\$ (7.8)	10.2%
NET COST OF OPERATIONS	\$ 896.8	\$ 767.0	\$ 129.8	16.9%

Figure 24: Changes In Key Financial Measures



DEFENSE EQUIPMENT TO INTERNATIONAL PARTNERS

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

Financial Results Summary

Assets - What DLA GF Owns and Manages

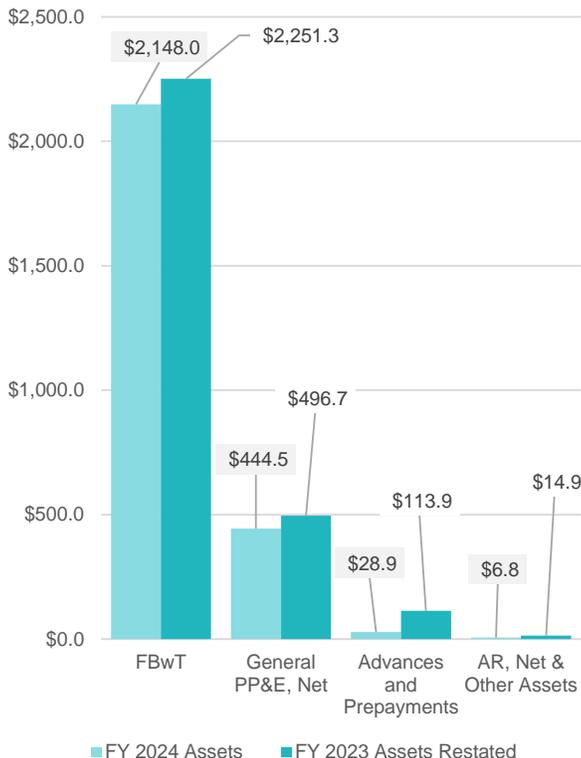
The DLA GF owns and manages assets to accomplish its mission as the Nation's Combat Logistics Support Agency. These assets include: Fund Balance with Treasury (FBwT); General Property, Plant and Equipment (PP&E); Advances and Prepayments; and Accounts Receivable and Other Assets.

As of September 30, 2024, the agency's largest asset, Fund Balance with Treasury (FBwT), amounted to \$2.1 billion, representing 81.7% of total assets. This reflects a decrease of \$103.3 million, or 4.6%, despite an increase in appropriations received—primarily for the MILCON, PDW, and O&M programs. The decrease was driven by increased outlays for the PDW Application Specific In-

tegrated Circuit (ASIC) Program and various RDT&E programs to advance research and development efforts, ensure operational readiness, and support emergent technological requirements. DLA GF's Property, Plant, and Equipment (PP&E) represented \$444.5 million, or 16.9% of total assets as of September 30, 2024, and is mostly comprised of CIP. The decrease of \$52.2 million, or 10.5%, was driven by reductions in CIP projects, which were transferred out by the U.S. Army Corps of Engineers (USACE). The decrease in Advances and Prepayments of \$85.0 million was primarily due to the receipt of materials for the PDW ASIC program that had been covered by progress payments in FY 2023.

Two Year Trend in Components of Total Assets (Unaudited)

As of September 30, 2024 and 2023 (\$ in millions)



Total Assets (Unaudited)

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

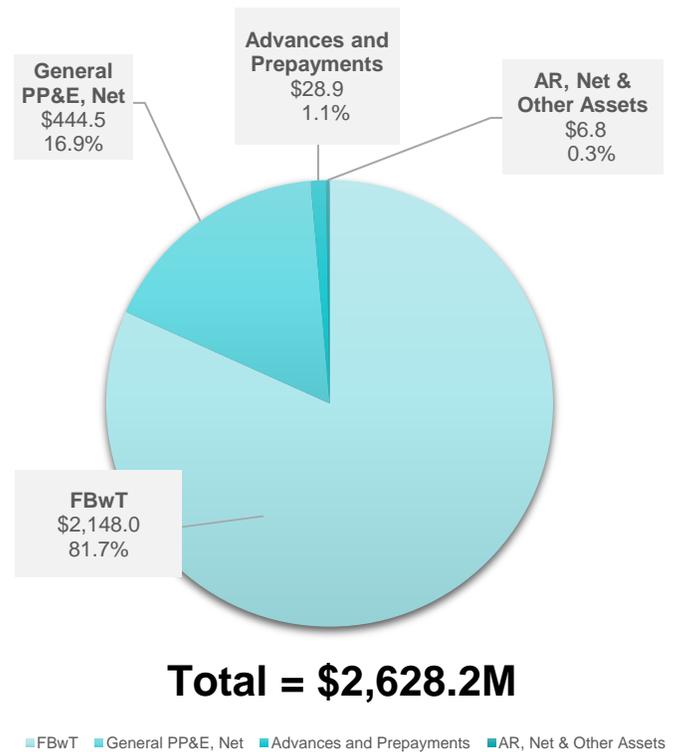


Figure 25: Total Assets by Component as of September 30, 2024 and 2023

Liabilities - What DLA GF Owes

DLA GF liabilities are comprised of several categories: (1) amounts owed to Federal and public entities for goods and services provided but not yet paid; (2) obligations to DLA GF employees for wages and future benefits; (3) Environmental and Disposal Liabilities (E&DL); and (4) Other Liabilities. The largest liability category is E&DL, which has a balance of \$103.4 million, representing 49.8% of Total Liabilities. This balance increased by \$27.0 million, or 35.3%, primarily due to additional out-year cost estimates at numerous depots for environmental remedial action operations, long-term mon-

itoring, and remedial investigation and feasibility study requirements. Accounts payable totaled \$87.7 million, or 42.3% of total liabilities, as of September 30, 2024. This represents an increase of \$14.6 million, or 20.0%, primarily due to decreased disbursements in-transit for O&M accounts payable. Federal benefits and other liabilities totaled \$16.3 million, or 7.9% of total liabilities, as of September 30, 2024. The increase of \$1.5 million, or 10.1%, is primarily attributed to contract holdback payables for U.S. Army Corps of Engineers (USACE) Military Construction (MILCON) projects.

Two Year Trend in Components of Total Liabilities (Unaudited)

As of September 30, 2024 and 2023 (\$ in millions)



Total Liabilities (Unaudited)

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

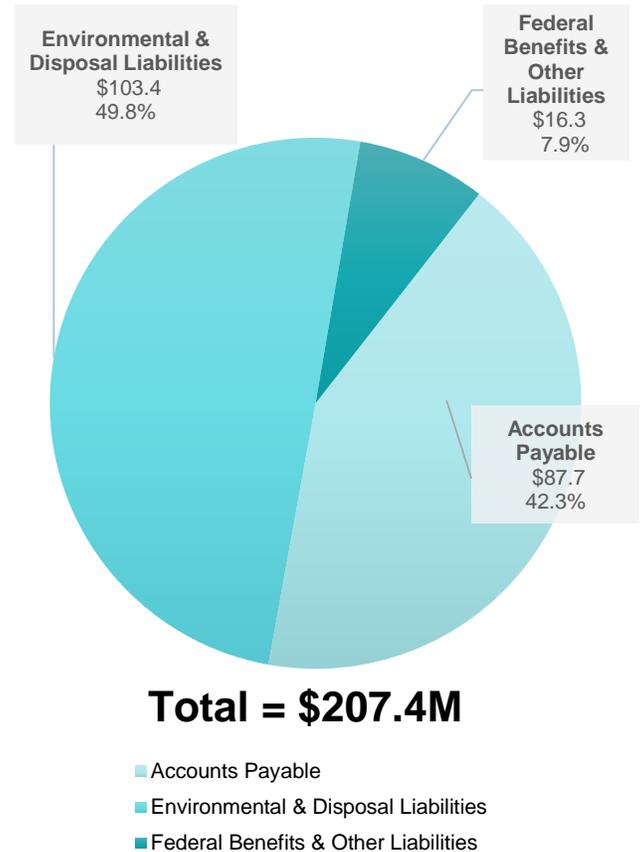


Figure 26: Total Liabilities by Component as of September 30, 2024 and 2023

Net Position - What DLA GF Has Done Over Time

Net Position represents the accumulation of Revenue and Expenses, and Unexpended Appropriations and Other Financing Sources transferred in/out since inception, as represented in DLA GF balances reflected in the Statements of Changes in Net Position. Total Net Position in the amount of \$2.4 billion reported as of September 30, 2024, reflects a decrease of \$291.7 million, or 10.8%. Net Position is made up of: (1) Unexpended Appropriations, and (2) Cumulative Results of Operations. Total Unexpended Appropriations decreased by \$210.8 million, or 9.2%, primarily due to Appropriations

Used. Appropriations Used increased by \$249.9 million, or 23.7%, primarily due to higher disbursements for the PDW ASIC and OSD COOP programs. Total Cumulative Results of Operations decreased by \$81.0 million, or 19.5%, primarily due to Transfers-in/out Without Reimbursement. The account increased by \$311.9 million, or 172.6%, primarily due to DLA GF transfers out of finished inventory from the PDW ASIC Program to DLA WCF and completed CIP projects transferred from USACE to the Military Departments.



DLA AVIATION AT CHERRY POINT

Sean Doss, FRC East Components Planner and Estimator, at Fleet Readiness Center East, explains the subcomponents of the F-18 APU and the process of rework from induction to completion of the APU to the attendees during the May 7 Industrial Support Activity Round Robin event. Leaders, from operations officers to officers-in-charge, from each ISA attended the daylong featuring a tour of the Fleet Readiness Center East and DLA Distribution operations. **Photo by:** Joe Andes, DLA Aviation

Net Cost of Operations - DLA GF Net Operating Results

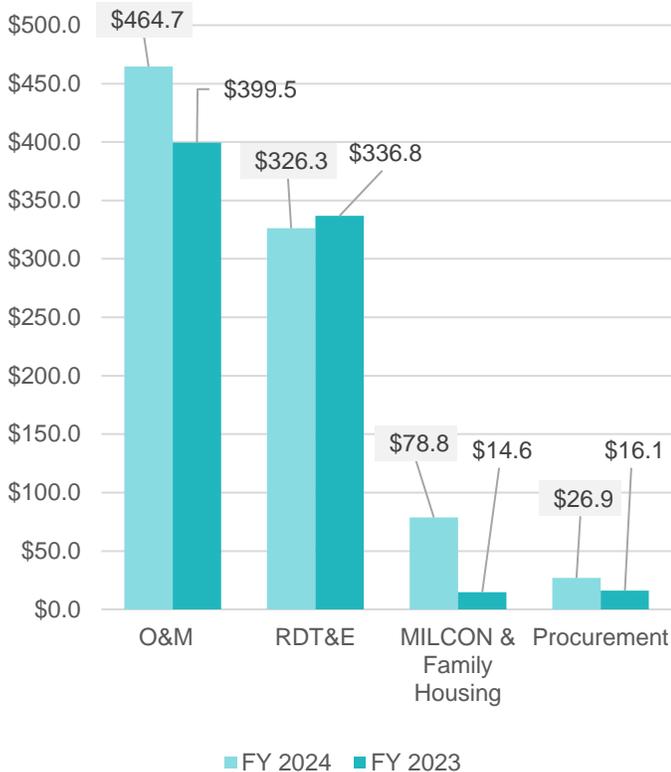
The DLA GF manages five programs: O&M, RDT&E, PDW, MILCON, and Family Housing. Net Cost is grouped by four major components, combining MILCON and Family Housing into one. For the year ended September 30, 2024, O&M represents the largest portion of the Net Cost of Operations at \$464.7 million, and RDT&E represents the second largest portion at \$326.3 million. These four major components incurred a Total Gross Cost of \$980.8 million and recognized Total Earned

Revenue of \$84.0 million, respectively, resulting in a Net Cost of Operations of \$896.8 million for the year ended September 30, 2024.

The increase in Gross Costs was primarily due to an increase in construction project costs for USACE Military Construction Program and estimated environmental cleanup costs for FY 2024.

Two Year Trend in Net Cost (Unaudited)

For the Years Ended September 30, 2024 and 2023
(\$ in millions)



Total Net Cost (Unaudited)

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

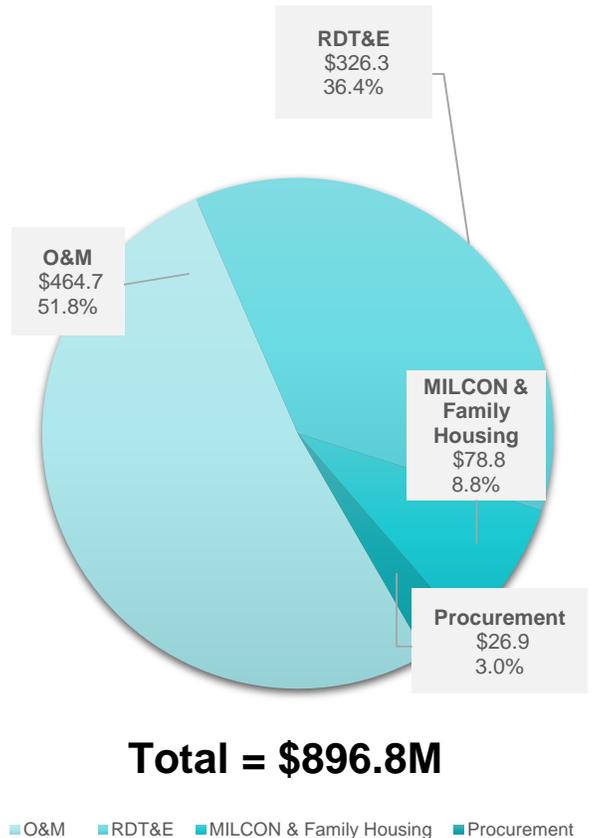


Figure 27: Comparative Net Cost by Program for the years ended September 30, 2024 and 2023

Budgetary Activity - DLA GF Budgetary Resources and Obligations

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The budget represents the plan for efficiently and effectively achieving the strategic objectives to carry out the mission and to ensure that DLA GF manages its operations within the appropriated amounts using budgetary controls. Two key components of budgetary activity include Budgetary Resources and Obligations. Budgetary resources are funds available for DLA GF to incur obligations to pay for goods and services prior to the cancellation of funds.

Obligations are balances for which there has been legally binding action during the year.

For the year ended September 30, 2024, DLA GF's Total Budgetary Resources were \$1.8 billion and New Obligations and Upward Adjustments totaled \$1.2 billion. Total Budgetary Resources increased \$56.7 million or 3.2% primarily due to an increase in appropriations for MIL-CON, PDW, and O&M. Additionally, Apportioned, Unexpired accounts increased by \$111.0 million or 22.3% due to PDW apportioned funds available for use.

Two Year Trend in Status of Budgetary Resources and Obligations(Unaudited)

For the Years Ended September 30, 2024 and 2023 (\$ in millions)

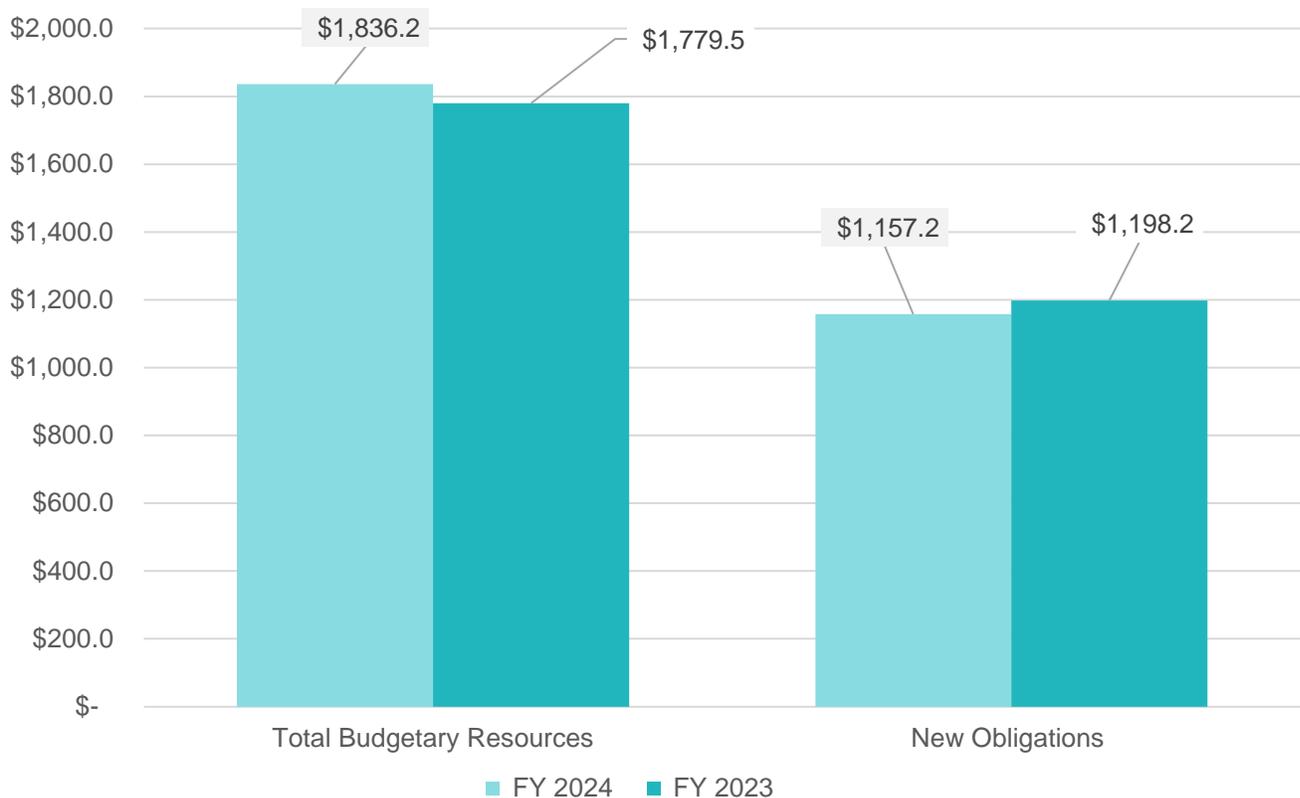


Figure 28: Status of Budgetary Resources for the years ended September 30, 2024 and 2023

Limitations of the Financial Statements

The DLA WCF and GF principal financial statements² and accompanying notes are prepared to report the financial position and results of operations of DLA WCF, and GF as required by the CFO Act of 1990, expanded by the GMRA of 1994, and 31 U.S.C. § 3515(b).

The DLA WCF and GF are unable to fully implement all elements of U.S. GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements for Federal government entities specified by 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. DLA WCF and GF derive 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 and GF 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. DLA

has begun migrating to the 4th version of System Applications and Products (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 and GF continue 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. DLA WCF and GF continue to implement interim mitigation processes to address known limitations; additionally, DLA WCF and GF are remediating material weaknesses to the financial statement preparation process. DLA WCF and GF have 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.

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

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

The DLA Management Assurances Memorandum is prepared for all three Funds: WCF, GF, and 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 AFR.

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10K TRAINING

Navy Petty Officer Second Class Davika Michael of DSU6 out of NAS Jacksonville Florida sits in the cab of a 10K forklift with Cortez Griffin a material identifier and examiner with DLA Disposition Services at Anniston, Alabama observing while their instructor Kevin Amir of DLA Disposition Services' Workforce Development Branch points out some of the control features of the Forklift, they are in Battle Creek, Michigan to certify on. Griffin is a full-time civilian employee of DLA, Michael is a member of the Navy Reserve, her civilian career is an oncology and dermatology surgery technician. Both are training for possible deployments with DLA Disposition Services to support military units in forward deployed locations around the world. **Photo by:** Jeff Landenberger

Management Assurances



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

MEMORANDUM FOR UNDERSECRETARY OF DEFENSE (COMPTROLLER) (OUSDC(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 controls in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2024.

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

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

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

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

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

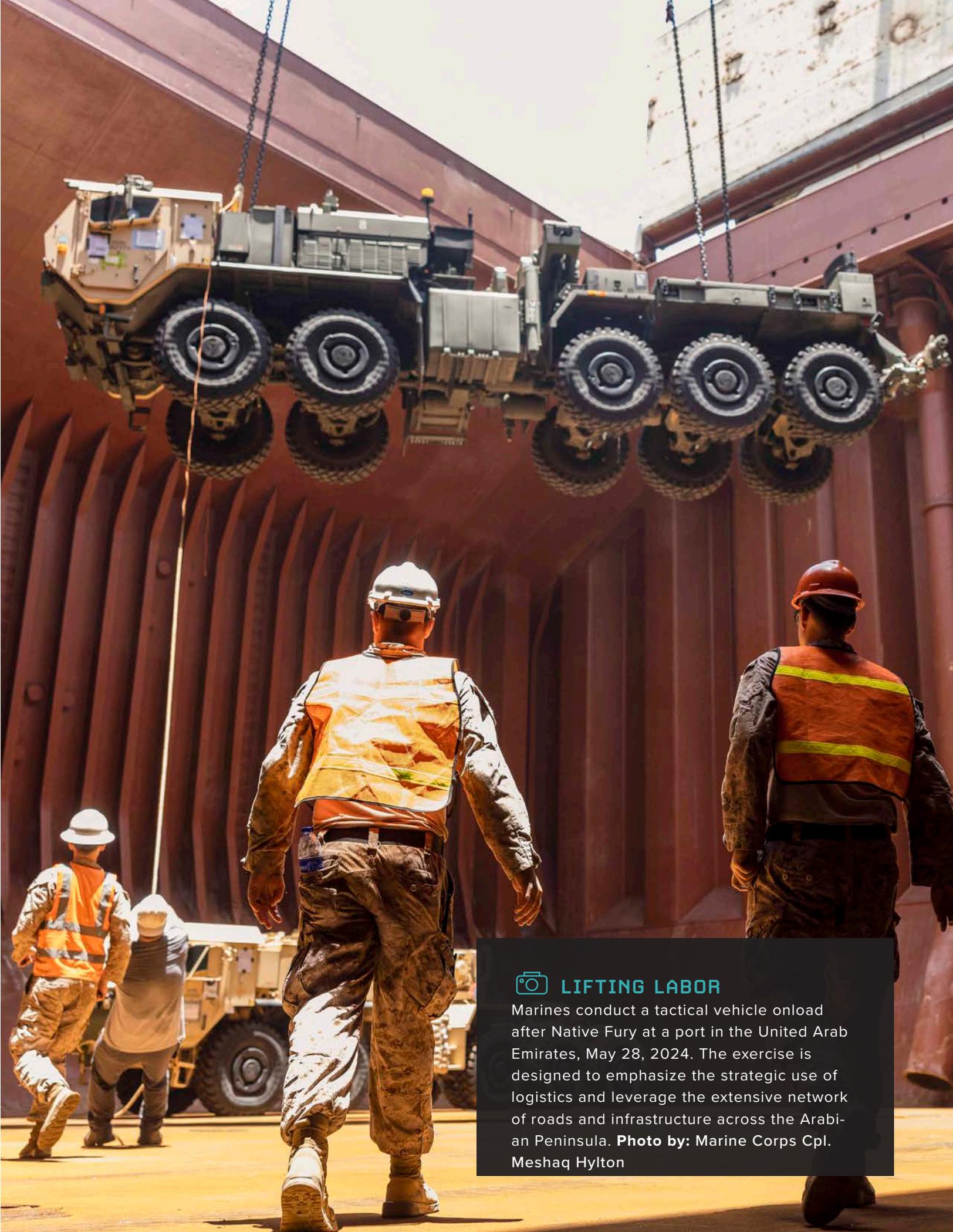
DLA continues to make progress towards implementing an effective OMB A-123 Program, conducting the first full assessment of entity-level controls as well as documenting and assessing key controls across DLA's end-to-end business cycles. DLA also made significant investments in Governance, Risk, and Compliance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

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

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



MARK T. SIMERLY
LTG, USA
DIRECTOR



LIFTING LABOR

Marines conduct a tactical vehicle onload after Native Fury at a port in the United Arab Emirates, May 28, 2024. The exercise is designed to emphasize the strategic use of logistics and leverage the extensive network of roads and infrastructure across the Arabian Peninsula. **Photo by:** Marine Corps Cpl. Meshaq Hylton

Summary of Internal Control

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

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

Federal Managers' Financial Integrity Act

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

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

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

The DLA considered the five components, and seventeen principles defined by the GAO Green Book, identifying deficiencies and gaps in each of the five standards of internal control and concluding with a statement of no assurance due to 18 material weaknesses in internal controls over financial reporting, one material weakness related to internal controls over financial systems, Limited Self-Assessments of internal controls, and ineffective self-evaluations of internal control systems.

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MARINE CORPS AT THE FOREFRONT FOR GROUND-BASED LASERS

A Marine conducts pre-deployment training and evaluation. Additionally, Marines are evaluating the Compact Laser Weapons System, the first ground-based laser approved by the Department of Defense for use by warfighters, as another potential C-UAS defeat capability. **Photo by:** Marine Corps photo by Lance Cpl. Dalton S. Swanbeck

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

- Control Environment:** In support of the FY 2024 Secretary of Defense (SecDef) Audit Priorities, the ERM PMO worked to identify control owners and specific control activities that align to the 48 control attributes in the GAO Green Book. This is the first time 100% of Entity-Level Controls (ELCs) were assessed comprehensively on a DLA-wide basis, laying the groundwork for continued improvement in these foundational controls in years to come.
- Control Activities:** In FY 2024, DLA began initiatives aligned with SecDef directives to document ten end-to-end process control narratives (PCNs) and test the related system and business process design and execution controls. DLA implemented a framework correlating key controls from DoD-wide PCNs with DLA-specific processes, facilitating stakeholder identification and ongoing status monitoring of key controls. DLA projected and accomplished partial testing for six of the ten applicable PCNs. Implementation of one additional PCN is expected in FY 2025, with the remaining three projected for FY 2026. As part of the Q4 PCN Statement of Assurance (SOA) submission, DLA provided an assertion and certification memorandum to OUSD(C), outlining the testing plan. These initiatives allowed DLA to quickly identify gaps in key control implementation, establish a baseline for corrective action, and set the Agency up for success in identifying corresponding controls for future PCNs. Furthermore, the initiatives equipped DLA to ensure proper and timely alignment, designing, implementing, and testing of key controls.
- Risk Assessment:** DLA has continued to execute a robust fraud risk management in alignment with GAO and DoD requirements. DLA has published a Fraud Risk Management (FRM) Strategy, signed by the DLA Chief of Staff. The Strategy is a five-year roadmap on how to design and sustain an effective FRM program to protect DLA's assets and resources and support warfighter readiness. In FY 2024, the

ERM PMO focused on initiatives to develop the GAO Fraud Risk Management Framework linked to DLA's ELCs, Fraud Risk Management Guidance, and CAPs for the three Fraud ELCs.

- Information and Communication:** In FY 2024, the ERM PMO collaborated with J6 and J8 to deploy two program increments of a Governance, Risk, and Compliance (GRC) tool focused on building a standardized automated CAP process, with pilot data focusing on CAPs from the financial statement audit. Additionally, the program increments featured the development of risk management frameworks and roles. As additional capabilities are brought into the GRC system, DLA will be better able to automate Risk Management Internal Control (RMIC) activities, provide consistent reporting, and enable maturation of the internal control environment that is the source of a material weakness at DLA.
- Monitoring:** The ERM PMO revised CAPs to address external and internal environmental changes impacting DLA's risk landscape. The revisions better captured the ERM PMO role from both an oversight and monitoring perspective, highlighting each DLA organization's responsibility to implement and execute the RMIC program within their respective areas of responsibility for all end-to-end processes, holding them accountable and rigorously monitoring the progress made.

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

the RMIC Action Plan will help DLA achieve a robust and effective IC Program and favorable results when evaluating its overall IC system.

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

Federal Financial Management Improvement Act

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

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

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

The DLA leveraged the OMB Circular A-123, Appendix

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

FFMSRs:

High-risk factors include: the disclaimer of opinion on the FY 2024 and FY 2023 financial statements; and MWs reported in FY 2024 and FY 2023 in areas that corresponded to FFMSRs.

Federal Accounting Standards³:

High-risk factors include: the disclaimer of opinion on the FY 2024 and FY 2023 financial statements and MWs reported in FY 2024 and FY 2023 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 2024 financial statements and MWs reported in FY 2024 and FY 2023 in areas that related to implementation of the USSGL at the transaction level.

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

³ Refer to the Notes to the Principal Financial Statements; Note 1.C, *Departures from U.S. GAAP*.

FFMIA Section 803(a) Requirement	Remediation Activities	Target Date	Responsible Offices
<p>Federal Financial Management System Requirements</p>	<p>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.</p>	<p>FY 2025 - FY 2027</p>	<ul style="list-style-type: none"> ● Finance ● Information Operations ● Acquisition ● Logistics Operations
<p>Federal Accounting Standards Advisory Board (FASAB)</p>	<p>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.</p>	<p>FY 2025 - FY 2027</p>	<ul style="list-style-type: none"> ● Finance ● Information Operations ● Acquisition ● Logistics Operations
<p>USSGL at the Transaction Level</p>	<p>To reduce the material risks of procedural and post-ing logic deficiencies and achieve compliance with applicable accounting regulations, DLA will identify non-compliant areas with a financial impact in processes across the enterprise. This approach will include creating and updating policies, procedures and internal controls, as well as requesting the implementation of system changes to address underlying errors in the systemic posting logic.</p>	<p>FY 2025 - FY 2027</p>	<ul style="list-style-type: none"> ● Finance ● Information Operations ● Acquisition ● Logistics Operations

Compliance with Laws and Regulations

Anti-Deficiency Act

The Anti-Deficiency Act (ADA) Title 31 U.S.C. §1341, prohibits Federal employees from obligating funds in excess of an appropriation or before funds are available, or from accepting voluntary services. As required by the ADA, DLA notifies all appropriate authorities of any potential ADA violations. Currently, there are no known ADA violations for DLA WCF and GF.

Digital Accountability and Transparency Act of 2014

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

The Digital Accountability and Transparency Act of 2014 (DATA Act), OMB Circular A-123, the GAO Green Book, and DoD's Data Quality Plan (DQP) and all require agencies to improve the quality of their data. The DATA Act requires the quarterly reporting of obligation and spending data on USASpending.gov. The standardization of spending data in a consistent format enables more visibility to taxpayers and allows the Department to make informative decisions for accomplishing our mission and performance objectives.

During FY 2024, DLA published and continued implementation of its Enterprise Data Management Data Quality Plan. The Data Quality Plan defines the standards, requirements and specifications for data quality controls as part of the data lifecycle, ensuring data is accurate and complete in the core financial system, Enterprise Business System (EBS).

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

the results of the quarterly assessments of the data elements tested.

For FY24, DLA's assessment reviewed the 12 applicable data elements and identified anomalies in eight of the data elements reviewed. The anomalies were researched, corrected, and no further issues were identified. As of September 30, 2024, DLA is reporting compliance for 12 of 12 data elements. DLA remains committed to maintaining high standards of data quality and transparency in federal spending, in accordance with the DATA Act requirements.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act 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 Digital Accountability and Transparency Act of 2014 amended the DCIA of 1996 to reduce the time period to 120 days.

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

On behalf of DLA, DFAS reports all instances of delinquent debts over 120 days to the Secretary of Treasury in compliance with the DCIA. On a quarterly basis, DLA receives a Payment Recapture Recovery Report from DFAS on a recurring basis. This spreadsheet provides recovery actions undertaken by DCDS to recover improper payments and vendor debt and includes reason for debt, whether for overpayment or due to contract default, what was recovered, what was the disposition of funds recovered, and the aging of funds not recovered. For FY 2024, DLA noted no instances of noncompliance with the DCIA of 1996.

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

In 1982, Congress enacted the Prompt Payment Act (PPA) to require Federal Agencies to pay their bills on a timely basis, to pay interest penalties when payments

are made late, and to take discounts only when payments are made by the discount date.

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

Government Charge Card Abuse Prevention Act of 2012

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

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

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

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

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

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

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

Financial Systems

Financial Management Systems Strategy

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

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

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

In addition to identified audit findings, DLA is working to become compliant with DoD requirements including Standard Financial Information Structure (SFIS) and Standard Line of Accounting (SLOA). The implementation of DoD SLOA will improve interoperability with

other DoD business systems and provide better end-to-end funds traceability and eliminations reporting to enable successful audits in DoD. Improvements to general ledger posting logic to comply with the USS-GL are also being implemented proactively to ensure all business events are mapped to the proper general ledger accounts.

Both Finance (J8) and Information Operations (J6) work collaboratively to build a roadmap for future financial management system improvements based on budget availability, resource, and system constraints. DLA's financial management systems strategy supports the overarching strategy of DLA to align end-to-end business processes with financial statements line items with a focus on risk and controls. DLA will also continue to focus on remediating any issues associated with material weaknesses and DoD CFO and Chief Information Officer (CIO) priorities.

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

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



FILLING A CAST

A light armored vehicle (LAV-25) from Alpha Company, 1st Combat Engineer Battalion Coronado, disembarks from a landing craft, air cushion (LCAC) from Assault Craft Unit 1 during a commemoration ceremony observing the 80th anniversary of the D-Day landings, June 6, 2024. **Photo By:** Chief Petty Officer Mark Faram

Financial Management Systems Framework

The DLA relies on EBS as its principal financial management system of record to process, track and report all business events that impact DLA WCF and GF. The core of EBS is Systems Applications and Products (SAP) Enterprise Resource Planning (ERP) Central Component (ECC) version 6.0. DLA EBS ECC 6.0 has a single, enterprise general ledger which is used for all funds. This is a cloud-hosted, commercial off-the-shelf (COTS) software product that has been configured and customized to meet DLA's business requirements. However, due to system deficiencies. There are numerous systems which interface with EBS. These include but are not limited to inventory and customer ordering systems, including the Distribution Standard System, a legacy inventory warehouse management system and multiple DFAS systems, including the Defense Departmental Reporting System (DDRS) – for the creation of financial statements, reports, and Treasury cash management. DLA is unable to provide assurance that EBS is compliant with Federal accounting and security requirements

Future Financial Management Systems Framework

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

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

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

The DLA will also be implementing system changes to meet the requirements of Treasury's G-Invoicing sys-

tem. G-Invoicing will help address government-wide accounting elimination problems by ensuring trading partners have the same information for intragovernmental transactions. The G-Invoicing mandated implementation deadline was October 2022 for Federal Program Agencies (FPAs) for new orders with a period of performance beginning October 1, 2022, or later. FPAs

must transact all Buy/Sell activity through G-Invoicing by October 2025. Currently, DLA's G-Invoicing system solution is on track for production, and will be implemented in phases during FY 2025 and 2026.

FORWARD-LOOKING INFORMATION

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

An Ever-Changing Workforce

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

Changing demographics are the first significant external factor. There are different generations working side-by-side in the DLA workplace and DLA civilians are playing an increasingly critical role in supporting global DoD missions. These changing demographics will require continued assessment of DLA's current human resource initiatives and new strategies to excel in areas such as recruitment, training and development, work-life balance, managing in a geographically dispersed environment while maintaining strong connections to DLA culture, knowledge transfer, leadership skills, labor management relations and a culture that fosters diversity, equity, inclusion, accessibility, and employee engagement.

Our economy is the second external factor that influences the Federal government's ability to recruit top talent and retain its workforce. It is critical that DLA not only recruits and retains a diverse workforce, but also ensures the workforce has the critical skills necessary to operate in this constrained environment.

Technology is the third external factor. Advancement of self-service capabilities, easy access to people and tools that employees need, and automation of routine process are in DLA's future. In partnership with DLA Information Operations (J6), DLA Human Resources (J1) is currently working on expanding their technological footprint with the use of ServiceNow. Through the use of ServiceNow, the self-service capabilities for employees will expand to a new level. Employees will be able to use a single point of entry to gain access to all things J1. Employees will immediately be sent to the correct point of contact based on their need, they will be able to submit requests through a monitored tracking system, where employee can check status at any time, engage with chat bots on routine questions, and get the HR related forms they need at any time. J1 and J6 have started the process for implementation with the first phase being pushed out by end of Fiscal Year 2024.

The work environment is the last significant external factor to impact DLA's workforce. DLA's success as an organization is largely dependent on DLA's ability to achieve a high-performing, results-driven culture and to sustain that culture in light of changes to demographics, economics, and technology. These factors will impact each segment of DLA, and DLA Human Resources must strategically partner with leadership and the workforce to carry out DLA's mission. The use of change management techniques will assist in decreasing the uncertainty associated with changes as well as mitigate resistance to those changes.

The DLA has a critical mission to support the Military Services, Combatant Commands, and other Federal

Agencies; that includes supporting our Nation's response to COVID-19. As of May 11, 2023, the Coronavirus national and public health emergency expired. The Consolidated Department of Defense Coronavirus Disease 2019 Force Health Protection Guidance – Revision 4, as of January 30, 2023 issued by the Under Secretary of Defense for Personnel and Readiness presents a uniform and consolidated DoD policy for the Department's response to the COVID-19 pandemic. As an employer, DLA will continue to follow DoD policies and guidelines in taking any actions to address the COVID-19 Reentry and Safety Plan.

DLA leaders are committed to protecting our workforce from the effects of the COVID-19 pandemic while preserving the Agency's ability to be mission ready. As DoD revises and develops new policies to protect the workforce, the DLA CCT will continue to provide implementation guidance as appropriate for DLA worksites. Each DLA major population center has its own plan for returning employees to the workplace, all based on common guidance for a condition-based, deliberate, and safe return. Different locations will go through the various phases on different timelines accounting for

local conditions. DLA is monitoring workforce availability and conducting site capability and capacity assessments. DLA will continue to encourage completion of COVID-19 worksite related trainings and to develop methods to effectively hire and onboard personnel with a plan for virtual training and orientation.

External Threats

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

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



FUELING UP

A soldier dispenses fuel to a vehicle during convoy support center operations in Wettiner-Kaserne, Frankenberg, Germany, April 11, 2024. The center serves as a key logistical node for convoys to Lithuania in support of Exercise Saber Strike 24. Saber Strike is connected to Steadfast Defender and focuses on rapid deployment of forces and cold weather training in the Baltics. **Photo By:** Army Capt. Misael Saldivar

In addition, DLA continuously reviews its strategy to meet global mission requirements as prescribed by DoD. DLA conducted a review of our current strategy against the FY 2025 DoD Strategic Management Plan (SMP) - Annual Performance Plan for Fiscal Years 2022 – 2026, as well as the A&S and ASD(S) goals and priorities to ensure alignment with DLA's 2021-2026 Strategic Plan remains in effect. DLA continued to support follow-on efforts of the Director of Administration & Management (DA&M) to develop the consolidated report on the FY 2023- 2024 Defense Activity Field Activity (DAFA) Review to the congressional defense committees, the report is pending submission at this time. The report will include the information required by law, together with any additional information deemed necessary and appropriate by the DA&M. DLA released its recrafted DLA Strategic Plan 2025-2030, titled "DLA Transforms: A Call to Action." The updated strategic plan lays the foundation for the Agency's future direction over the next five years. The plan will be effective starting in FY 2025 and consists of four overarching imperatives (People, Precision, Posture, and Partnerships) and 19 supporting objective goals. It is designed to meet the evolving requirements of the Warfighter and the nation with a targeted transformative approach encompassing the most critical priorities for the next five years.

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

ERM takes an integrated, strategic approach to supporting DLA's mission while managing risks by providing a prioritized listing of agency-wide risks in an annual Risk Profile. Employing a rigorous approach, DLA coordinates across the enterprise to establish the annual Risk Profile as part of the Statement of Assurance deliverables DLA transmits to OUSD(C) annually. In FY

2023, DLA executed a comprehensive "top down" and "bottom up" approach to identifying, assessing, consolidating, and prioritizing DLA's enterprise-level risks. Upon thorough discussion amongst senior leadership within established ERM governance forums, DLA affirmed its commitment to protecting DLA's operational resiliency and strategic priorities through its approved FY 2023 DLA Risk Profile. The items identified all represent potential threats to DLA's ability to achieve its strategic objectives and support the Warfighter if the risks are realized. Risks identified in FY 2023's Risk Profile are:

- Supply Chain Security
- Industrial Base Vulnerabilities
- Achieving Readiness Objectives while Maintaining Fiscal Solvency and Affordability
- Loss of Critical Technology Capability
- Audit Opinion Progress

The DLA faces current and future cyber threats that must be countered in a sustained effort to secure and defend the Agency's critical operational data, network, and business systems by applying key security principles, which include:

- Operations-level situational awareness;
- Layered perimeter defenses;
- Least privilege for access to data and IT capabilities; and

- Physical or logical segmentation of networks, services, and applications.

The DLA continues to provide limited support to the U.S. response to COVID-19 in the areas of material support, planning, and acquisition as COVID-19 response initiatives reduce levels of effort.

DLA efforts relating to climate risks are reported at the DoD wide level, as instructed per OMB Circular A-136

requirements for Significant Entities and the Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, Appendix 1a, List of Significant Entities. The DoD sustainability and adaptation plans, reports, and scorecards can be found at: [Federal Progress, Plans, and Performance | Office of the Federal Chief Sustainability Officer.](#)



PIER OPERATIONS

Humanitarian aid reaches Gaza via the temporary Trident Pier, June 11, 2024. **Photo By:** Army Staff Sgt. Mikayla Fritz



 **PALLET PICKUP**

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



AGENCY FINANCIAL
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LOGISTICS
DEFENSE AGENCY
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REPORT



2

WCF | GF
FY2024

SECTION 2



FINANCIAL SECTION
(UNAUDITED)

SECTION 2

Financial Section (Unaudited)

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U.S. MARINES CONDUCT PROTOTYPE TANK CAPABILITY TRAINING

U.S. Marines with 1st Marine Expeditionary Force and 3rd Marine Expeditionary Force, help construct the Modular Fuel Tank System in South Bend, Indiana. The new fuel system only requires a small team to construct and can move with the unit to austere environments. **Photo by:** U.S. Marine Corps Cpl. Haley Fourmet Gustavsen

SECTION 2 Title Page Image Captions (pg.73) + Credits (listed clockwise)

1. RUNNING START

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

2. DLA ENERGY SUPPORTS SPACE MISSIONS FROM COAST TO COAST

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

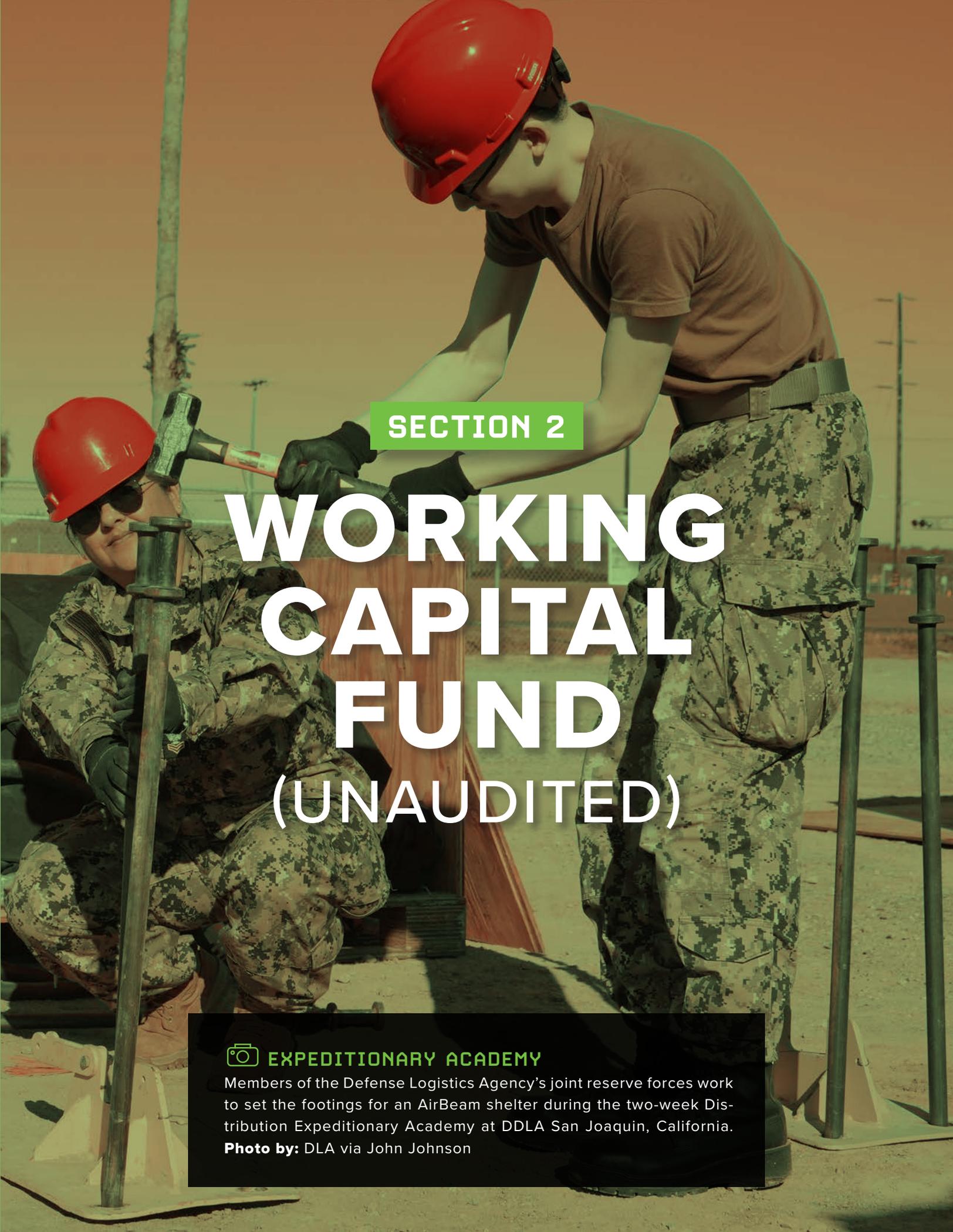
3. FORT IRWIN DISPOSAL

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

4. FUTURE PILOT

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

Photo by: Air Force Tech. Sgt. Don Hudson



SECTION 2

WORKING CAPITAL FUND (UNAUDITED)

 EXPEDITIONARY ACADEMY

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

Photo by: DLA via John Johnson

AUDIT REPORTS



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

November 8, 2024

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Logistics Agency Working Capital Fund Financial Statements and Related Notes for FY 2024 and FY 2023
(Project No. D2024-D000FE-0048.000, Report No. DODIG-2025-021)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Defense Logistics Agency (DLA) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2024, and 2023. 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 Working Capital Fund'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 2024; Volume 2, June 2024; and Volume 3, July 2024. 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 Working Capital Fund 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 Working Capital Fund Financial Statements FY 2024 and FY 2023 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting," discusses seven material weaknesses related to the DLA Working

Capital Fund's internal controls over financial reporting.* Specifically, EY's report stated that the DLA Working Capital Fund did not:

- validate and support Inventory balances and transactions;
- reconcile and record Fund Balance with Treasury accurately;
- identify and record Accounts Receivable and revenue transactions properly;
- support and record Accounts Payable, expenses, and related budgetary balances;
- design controls over the financial statement reporting process to identify and prevent inaccurate balances and footnotes;
- document end-to-end business processes, monitor internal control risks, and remediate audit findings; or
- ensure the effective design and operation of financial reporting information systems.

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

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DLA Working Capital Fund FY 2024 and FY 2023 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DLA Working Capital Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996

* 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.

requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2024 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.

FOR THE INSPECTOR GENERAL:



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

Attachments:

As stated



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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Working Capital Fund (WCF) of the Defense Logistics Agency (DLA), which comprise the balance sheets as of September 30, 2024 and 2023, and the related statements of net cost and changes in net position and combined statements of budgetary resources for the years 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 years ended September 30, 2024 and 2023.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, DLA has not implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on DLA’s financial statements as of and for the years ended September 30, 2024 and 2023 is not currently determinable by DLA and could be material.

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 the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 8, 2024, 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 8, 2024



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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, 2024, 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 8, 2024 expressed a disclaimer opinion thereon that included a Departure from U.S. Generally Accepted Accounting Principles section regarding DLA not having implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on DLA’s financial statements as of and for the years ended September 30, 2024 and 2023 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 ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below and in more detail in 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. 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 all had deficiencies. 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 directly 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 Services (DFAS), has implemented the 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 sufficient 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 had not supported 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 overall 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 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 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.

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. Therefore, DLA was unable to support the existence, completeness, rights, and valuation of its PP&E. 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 8, 2024. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2024 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.

Ernst & Young LLP

November 8, 2024



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 did not exist or was 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.
- 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, including the design of 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 several fiscal years, including amounts dating back to 2013.
- **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 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 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 Inventory Physical 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 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 APSR 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 Controls over Inventory Held by Third Parties. DLA did not have a detailed listing of inventory by vendor that reconciles to the inventory recorded in DLA's general ledger, nor did DLA have a listing of all vendors who hold inventory on DLA's behalf. DLA was unable to support the balances of inventory held at third parties for each vendor. As a result, DLA was unable to substantiate the existence and completeness of inventory held at third parties.

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 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.

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 validate 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 Inventory Physical Counts.** DLA should design and implement policies, procedures and controls over inventory physical counts. The inventory counts for Supply and Disposition should include a requirement whereby 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 APSR 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 Controls Over Inventory Held by Third Parties.** Design controls over inventory held by third parties by performing a reconciliation of third-party managed inventory balances to the general ledger balances and developing a comprehensive listing of vendors and military services that hold DLA-owned inventory on behalf of DLA. The control activities should include assessing the existence and completeness of inventory held at third parties.
- 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.
 - 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 Accounts.** The documentation did not include the process to correctly identify and resolve suspense amounts.
- **Reconciling Items to Treasury.** The documentation did not include 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 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.** Finalize the documentation of the end-to-end process for FBwT. The documentation should include the process to perform regular and recurring reconciliations of the suspense 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.

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. Additionally, documentation did not include the processes to account for and report UCOs with public customers.
- **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 for the accounting treatment 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.

B. Lack of or Inadequate Controls Over AR, Revenue and Cash Collection Processes. DLA lacked or did not have adequate controls, including the design of 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 the control was operating effectively.

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.
- 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.** The documentation should include 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 and to account for UCOs with public customers.



- **AR.** The documentation should include 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.** The documentation should include 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.

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.



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.

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 the services, 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 UDOs 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.
 - **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, including the design of 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 comply with the Federal Financial Management Improvement Act (FFMIA), which requires transactions to be recorded at the detailed level. DLA recorded transactions at a summary level for certain budgetary and proprietary accounts. As a result, each summary-level record contained multiple individual transactions. A reconciliation was not performed between detailed transactions posted to the proprietary accounts and the summarized postings to the corresponding budgetary accounts. Additionally, DLA lacked controls to properly classify vendors as federal or with the public at the transaction level.
- 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*; and 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.



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.** The documentation should include the process to review the validity of significantly aged UDOs, including a process to write off residual UDOs for completed transactions.
- **AP.** The documentation should 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 submitted 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.** The documentation should include the accounting and financial reporting requirements for non-monetary exchange transactions.
- **ULO.** The documentation should include the process to review the validity of significantly aged ULO, including the process to write off residual ULO for completed transactions.
- **Offsetting Transactions.** The documentation should include 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.** The documentation should include 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.



- **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 comply with the FFMIA and reconcile the transaction-level detail to the summarized postings in each account.
- 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.



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

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.
- **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.
 - **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.
- 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 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.
- 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 its assessable units and business processes. Identify and assess the risks in each business process, and design and implement relevant controls that are responsive to and mitigate these risks, including fraud risks. Perform an assessment of audit findings and establish and execute the plan to remediate the audit findings timely.



- B. Lack of or Inadequate Controls Around System Generated Reports.** Design and implement controls to verify the accuracy and completeness around system generated reports used in the execution of controls. For example, the procedures should include footing system generated reports, performing a tie-out of system generated reports to the general ledger, verifying that the parameters used to generate the reports or data are appropriate, judgmentally 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 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.

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.

The identified access control weaknesses in aggregate represent a significant risk to the DLA financial statements, Information Technology (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:

- For a selection of users of financially significant applications, access was not restricted to authorized users with a business need, was not reviewed and documented prior to provisioning, and was not assigned in accordance with the principle of least privilege.
- For a selection of account management controls for financially significant applications, user access and activity were not monitored and tracked for routine access recertification, revalidation of privileged access, and terminated or inactive users.
- For a selection of audit logging controls for financially significant applications, audit logs, security violations, and sensitive user activity were not tracked, monitored, resolved, or configured appropriately within systems.

Configuration Management Controls

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

The identified configuration management and change control weaknesses in aggregate represent a significant risk to the DLA 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:

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

Segregation of Duties Controls

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

The identified segregation of duties and conflicting role weaknesses in aggregate represent a significant risk to the DLA 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:

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



Security Management / Governance Over Implementation of Security Controls

An entity-wide information security management and internal control program is the foundation of a security control structure to address security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

The identified security management and governance weaknesses in aggregate represent a significant risk to the DLA 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 assess CUECs, including validation of whether management's internal controls relevant to the CUECs, are designed, implemented, and operating effectively.
- In the absence of an overarching internal control program that complies with OMB Circular A-123, management's internal control procedures did not identify all financially significant risks, establish and implement controls, track known risk exposure, and remediate control gaps.
- Vulnerability scanning was not conducted in accordance with defined frequencies, and verification that all system assets are being incorporated into periodic scans was not documented.

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:

- Management internal control procedures did not allow them to identify and address transaction errors timely.
- Contingency planning (CP) processes and controls failed in allowing management to backup system data.

Recommendations

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

Access Controls

- Restrict access to authorized users in accordance with the least privilege principle. Review and approve all access, including justification of business needs.
- Routinely monitor and revalidate access needs for business users, privileged users, and terminated and inactive users.
- Monitor user activity, identify and audit security violations, and assess privileged and sensitive users and transactions.

Configuration Management Controls

Review, approve, and test changes prior to implementation, to include user testing and functionality assessments.

- Monitor source code, configurations, and production environments for unauthorized changes.
- Segregate conflicting roles between development and production environments.



Segregation of Duties Controls

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

Security Management/Governance Over Implementation of Security Controls

- Establish a process to evaluate and incorporate service provider reports, findings, and controls into management's security documentation, governance process, and application control environment.
- Perform an IT risk assessment in conjunction with the implementation of an enterprise OMB Circular A-123 internal control program. Document risks and controls in place, identify gaps, and complete corrective actions to strengthen the internal control environment. Improve documentation, test and validate controls, and remediate findings.
- Verify all system assets which require periodic vulnerability scanning, perform required scanning periodically and retain documentation demonstrating results of scans are complete, accurate and reviewed timely.

IT Operations Controls

- Establish monitoring processes to detect and address transaction errors timely.
- Design and implement controls to periodically backup and monitor system data to successfully respond to incidents and prevent the permanent loss of data.



Appendix B – Significant Deficiencies

I. 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. PP&E process documentation, policy memoranda and standard operating procedures failed to document the end-to-end processing of PP&E transactions and related internal control activities. 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, including the design of 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.



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, update and finalize the PCMs that document the end-to-end processes and controls for PP&E. 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.



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, we identified deficiencies in controls listed below, which, when aggregated, we consider to be a significant deficiency.

A. Inadequately Designed Controls Over Information Used in the Estimation Processes. Controls that have been implemented were not designed adequately because the information used in the control activity is not assessed for completeness and accuracy. As a result, DLA was unable to demonstrate that control activities were operating effectively.

Recommendations

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

- A. Inadequate Controls Over Information Used in the Estimation Processes.** Design and implement formalized controls that adequately address the risks of using incomplete or inaccurate data in the process of estimating environmental liabilities.



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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, 2024, 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 8, 2024 expressed a disclaimer opinion thereon that included a Departure from U.S. Generally Accepted Accounting Principles section regarding DLA not having implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on DLA’s financial statements as of and for the years ended September 30, 2024 and 2023 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. 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 8, 2024, 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.

As referenced in the Fiscal Year (FY) 2024 DLA Statement of Assurance, DLA provides no assurance that the internal controls over operations, financial systems, reporting and compliance are operating effectively in compliance with the Federal Managers' Financial Integrity Act (FMFIA), Section 4; FFMIA of 1996, Section 803; and *Management's Responsibility for Enterprise Risk Management and Internal Control* OMB Circular No. A-123 Appendix D.

FFMIA

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

(a) Federal financial management system requirements

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

(b) Noncompliance with applicable federal accounting standards

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 are 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 2024 Statement of Assurance; 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.

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 8, 2024. 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 8, 2024 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 8, 2024

MANAGEMENT'S RESPONSE TO AUDIT REPORTS



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

November 8, 2024

**MEMORANDUM FOR THE DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL**

**SUBJECT: Ernst & Young, LLP Fiscal Year (FY) 2024 Financial Statement Audit – Working
Capital Fund (WCF) and General Fund (GF)**

The Defense Logistics Agency (DLA) appreciates the opportunity to provide feedback on Ernst & Young, LLP's (E&Y) Independent Auditor Reports for Fiscal Year (FY) 2024. E&Y's due diligence and comprehensive findings have allowed us the opportunity to strengthen our internal control environment and risk mitigation efforts.

While we acknowledge DLA has more work ahead, we have gained meaningful insight to improve our processes, controls, evidential matter, and Information Provided by Entity (IPE) to meet the scrutiny of the audit. As we move forward in FY 2025, DLA will continue to work diligently toward remediation of critical conditions that are material to our financial statements. Our top priority remains on ensuring that there are well documented policies and procedures, enhanced risk mitigation efforts, and an effective internal control environment.

Thank you, for your thorough examinations, insightful feedback, and consistent communication on the audit requirements for WCF and GF processes and controls during the FY2024 audit. We appreciate your professionalism and transparency throughout the process. It has been our pleasure to partner with you.


SUSAN J. GOODYEAR
Director, DLA Finance
Chief Financial Officer

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 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 Sheets present 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, 2024 and September 30, 2023.

The Statements of Net Cost present the net cost of DLA WCF operations for the years ended September 30, 2024 and 2023. 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 Statements of Changes in Net Position present 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 years ended September 30, 2024 and 2023.

The Combined Statements of Budgetary Resources present 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 years ended September 30, 2024 and 2023.

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



DLA DISTRIBUTION LAUNCHES RE-WAREHOUSING DASHBOARD APPLICATION

Defense Logistics Agency Distribution's 24 worldwide distribution centers can gain operational efficiencies by centralizing materials and collocating fast-moving inventory through a newly developed re-warehousing application. **Photo by:** DLA Distribution Public Affairs

Balance Sheets

As of September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 3,483,484	\$ 5,102,418
Accounts Receivable, Net (Note 4)	1,941,895	1,943,993
Other Assets (Note 5)	123,306	123,306
Total Intragovernmental	5,548,685	7,169,717
Other than Intragovernmental		
Accounts Receivable, Net (Note 4)	869,077	920,910
Inventory and Related Property, Net (Note 6)	24,141,874	23,985,027
General Property, Plant and Equipment, Net (Note 7)	885,433	775,756
Advances and Prepayments	99,978	103,477
Total Other than Intragovernmental	25,996,362	25,785,170
TOTAL ASSETS	\$ 31,545,047	\$ 32,954,887
LIABILITIES (Note 8)		
Intragovernmental		
Accounts Payable	\$ 177,686	\$ 150,330
Advances from Others and Deferred Revenue	408	155,474
Other Liabilities:		
Other Liabilities - Benefits Contributions Payable (Note 9)	36,969	40,065
Other Liabilities (Note 10)	-	5
Total Intragovernmental Other Liabilities	36,969	40,070
Total Intragovernmental	215,063	345,874
Other than Intragovernmental		
Accounts Payable	2,382,228	3,364,850
Environmental and Disposal Liabilities (Note 11)	332,704	335,068
Federal Employee Salary, Leave, and Benefits Payable (Note 9)	261,876	330,741
Pension and Post-Employment Benefits Payable (Note 9)	188,105	195,840
Advances from Others and Deferred Revenue	4,109	3,616
Other Liabilities (Note 10)	5,528	1,689
Total Other than Intragovernmental	3,174,550	4,231,804
TOTAL LIABILITIES	\$ 3,389,613	\$ 4,577,678
Commitments and Contingencies (Note 12)		
NET POSITION		
Unexpended Appropriations - Funds from Other than Dedicated Collections	\$ 883,887	\$ 692,700
Cumulative Results of Operations - Funds from Other than Dedicated Collections	27,271,547	27,684,509
TOTAL NET POSITION	28,155,434	28,377,209
TOTAL LIABILITIES AND NET POSITION	\$ 31,545,047	\$ 32,954,887

The accompanying notes are an integral part of these statements.

Statements of Net Cost

For the Years Ended September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023
Energy		
Gross Cost	\$ 12,889,667	\$ 12,351,624
Less: Earned Revenue	(12,368,812)	(13,690,018)
Net Cost	520,855	(1,338,394)
Supply Chain Management		
Gross Cost	35,980,169	33,234,056
Less: Earned Revenue	(35,038,964)	(33,482,807)
Net Cost	941,205	(248,751)
Document Services		
Gross Cost	259,261	257,123
Less: Earned Revenue	(257,554)	(262,952)
Net Cost	1,707	(5,829)
Total Gross Cost	49,129,097	45,842,803
Less: Total Earned Revenue	(47,665,330)	(47,435,777)
NET COST OF OPERATIONS	\$ 1,463,767	\$ (1,592,974)

The accompanying notes are an integral part of these statements.

Statements of Changes in Net Position

For the Years Ended September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023
Unexpended Appropriations		
Beginning Balances	\$ 692,700	\$ 988,353
Appropriations Transferred-in/out	425,386	472,636
Appropriations Used	(234,199)	(768,289)
Net Change in Unexpended Appropriations	191,187	(295,653)
Total Unexpended Appropriations: Ending Balance	883,887	692,700
Cumulative Results of Operations		
Beginning Balances	27,684,509	25,054,200
Appropriations Used	234,199	768,289
Non-exchange Revenue	-	(8,168)
Transfers-in/out Without Reimbursement	537,967	43,868
Imputed Financing	278,639	229,987
Other	-	3,359
Net Cost of Operations	1,463,767	(1,592,974)
Net Change in Cumulative Results of Operations	(412,962)	2,630,309
Cumulative Results of Operations: Ending Balance	27,271,547	27,684,509
TOTAL NET POSITION	\$ 28,155,434	\$ 28,377,209

The accompanying notes are an integral part of these statements.

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net	\$ 751,814	\$ 1,211,122
Appropriations	106,367	353,116
Contract Authority	55,671,685	56,778,925
Spending Authority from Offsetting Collections	308,560	321,458
TOTAL BUDGETARY RESOURCES	<u>\$ 56,838,426</u>	<u>\$ 58,664,621</u>
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments	\$ 56,331,072	\$ 58,243,603
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	507,354	421,018
Unexpired Unobligated Balance, End of Year	507,354	421,018
Total Unobligated Balance, End of Year	507,354	421,018
TOTAL BUDGETARY RESOURCES	<u>\$ 56,838,426</u>	<u>\$ 58,664,621</u>
OUTLAYS, NET		
Outlays, Net	\$ 2,044,436	\$ 73,161
AGENCY OUTLAYS, NET	<u>\$ 2,044,436</u>	<u>\$ 73,161</u>

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 Defense for Sustainment. DLA provides material and services to components of DoD (including the U.S. Army, Navy, Air Force, Marine Corps and Space Force), other Federal Agencies, and public entities. DLA accomplishes its mission and goals through the operations of the DLA WCF, DLA GF, and DLA NDSTF. These financial statements and accompanying notes herein only refer to the activities of DLA WCF.

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** – food support for the military all over the world;

- **C&T** - clothing, textiles and equipment to U.S. service members, other Federal Agencies, and partner nations;
- **C&E** - construction materials, heavy equipment, tactical gear, firefighting equipment, minerals and precious metals to wood products, imaging, and information equipment; and
- **Medical** - 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 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.



ROOSEVELT ARRIVAL

The Nimitz-class aircraft carrier USS Theodore Roosevelt (CVN 71) arrives in Laem Chabang, Thailand, April 24, 2024. Theodore Roosevelt is in Thailand for a scheduled port visit, supporting operational readiness and regional alliances. **Photo by:** Seaman Apprentice Aaron Haro Gonzalez

- **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 document storage.

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

icant influence over the other party's policy decisions. DLA WCF is unable to identify consolidation entities, disclosure entities, or related parties in accordance with SFFAS 47, *Reporting Entity* (effective FY 2018).

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

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to 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 U.S. GAAP, promulgated by the FASAB⁴, 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, without regard to the receipt or payment of cash. 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 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. DLA is assessing financial feeder systems and 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 Statements 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 Statements of Net Cost.)

⁴ FASAB is the official body for setting accounting standards of the U.S. Government.

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

- 1. Budgetary Resources:** Total Budgetary Resources⁵ available for the fiscal year, which include unobligated balances of resources from prior years and new budgetary authority. DLA WCF new budgetary authority primarily consists of appropriations⁶ and spending authority from offsetting collections⁷ and contract authority⁸.
- 2. Status of Budgetary Resources:** Reports availability of budgetary resources categorized into obligated⁹ and unobligated¹⁰ amounts; and
- 3. Outlays, Net:** Comprised of Outlays¹¹ less Offsetting Receipts¹² (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 accor-

dance with 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 DoD and Federal entities that generate Inter-DoD and Intra-governmental balances; however, DLA WCF is unable to reconcile and resolve differences between balances and transactions with other DoD and 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*. The process is not fully implemented.

Continued on next page ►

5 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."

6 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."

7 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."

8 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."

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

10 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."

11 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."

12 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."

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

Intra-departmental Transactions: DLA WCF is ultimately responsible for the accuracy of its trading partner data 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 (ODO). A DoD reporting entity unable to provide detail 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/Intra-departmental and Other than Intragovernmental Transactions)

Inter-fund Transactions: Inter-fund transactions and balances among DLA WCF activities (Energy, SCM, and Document Services) are eliminated from the Balance Sheets, the Statements of Net Cost, and the Statements of Changes in Net Position. The Combined Statements of Budgetary Resources are presented on a combined basis in accordance with OMB Circular A-136; therefore, inter-fund transactions have not been eliminated from these statements.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental/Intra-departmental and Other than Intragovernmental Transactions and Statements 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) E&DL; (3) accruals for accounts receivable related to aerospace, customer direct, Fuel Exchange Agreements (FEA), and inventory; (4) allowance for doubtful accounts; (5) accounts payable MOCAS and outbound MIPR accruals; (6) undelivered orders; (7) Federal Employees' Compensation Act (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 feed-



SEEING AT SEA

Navy Petty Officer 2nd Class Christian Alandy stands watch on the flight deck of the USS Carl Vinson while underway in the Pacific Ocean, June 12, 2024. **Photo By:** Navy Petty Officer 3rd Class Joshua Sapien

er 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.): The DLA WCF has not completed analyzing material applicable business relationships with other organizations to identify consolidation entities, disclosure entities, or related parties in accordance with SFFAS 47, *Reporting Entity* (effective FY 2018). 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 disclosure 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.

Statements 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/Intra-departmental 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, intra-departmental, and Other than Intra-governmental transactions in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*.

Inter-Entity Cost (Note 1.S.): 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.F. and Note 3): The DLA WCF is not able to account for 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.G. 1.S. and 1.U., Note 4; Note 6; and Note 13): 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, which 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 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 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*; and

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.I. and Note 6): 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:

Excess, Obsolete, 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 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 Inventory 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; and

Goods Receipt: The DLA WCF does not have sufficient policies and procedures to properly account for receipts of goods when the received quantity 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.J and Note 7): The DLA WCF does not have policies and compliant processes in place to account for general 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



319TH CES UPGRADES 20-YEAR BASE HYDRANT FUELS SYSTEM INFRASTRUCTURE

Airmen assigned to the 319th Civil Engineer Squadron liquid fuels maintenance shop, inspect a hydrant fuel pit, July 18, 2023, at Grand Forks Air Force Base, North Dakota. The valves were examined before their scheduled replacements, 20 years after their initial installation. **Photo by:** U.S. Air Force photo by Airman 1st Class Raisa Christie

been established for buildings, general equipment, 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 general equipment assets previously transferred from 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.K.): The DLA WCF does not have policies and compliant processes in place to identify,



PERSONAL PROTECTION

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

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.L.):

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/USSGL posting logic.

Accounts Payable, Expenses, and Undelivered Orders (Notes 1.N. and 1.T; 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, *Accounting 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 ex-

penses and payables, and an overstatement of UDOs; and

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.O; Note 11; and Note 12): 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, asset closure, and asbestos associated with general PP&E, in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*.

Commitments and Contingencies (Note 1.M; Note 10; Note 11; and Note 12): 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, asset closure, and asbestos associated with general PP&E, in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment*, and Federal Financial Accounting and Auditing Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Reconciliation of Net Cost to Net Outlays (Note 15): 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 Reconcilia-*

tion. 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 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 years ended September 30, 2024 and 2023, DLA WCF received direct appropriations in the amount of \$425.4 million and \$472.6 million, respectively (refer to Note 14, Statement of Budgetary Resources).

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 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.

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. Entity and Non-Entity Assets

The DLA WCF reports both entity and non-entity assets. Entity assets are assets that the reporting entity has authority to use in its operations. Management may have authority to decide how funds are used or it may be legally obligated to use the funds a certain way. Non-entity assets are not available for use in DLA WCF's operations. DLA WCF maintains stewardship accountability and reporting responsibilities for non-entity assets and will subsequently remit these non-entity assets to the Treasury. DLA WCF records a corresponding liability, custodial liability, for these accounts receivable. (Refer to Note 2, *Non-Entity Assets*, and Note 10, *Other Liabilities*).

F. 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, 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 accounting code 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. 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 Treasury Index (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, recy-

clable 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 3, *Fund Balance with Treasury*).

G. Accounts Receivable, Net

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

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



SUSTAINMENT BRIGADE

Defense Logistics Agency Energy Quality Assurance Representative Jaron Tyner (center) works with soldiers to perform analysis on fuel system icing inhibitor, an additive mixed into aviation fuels to prevent the formation of ice in fuel lines.

Photo By: DLA

Federal accounts receivables. Effective FY 2024, DLA WCF updated their allowance methodology to align with DoD Regulation 7000.14-R, "Financial Management Regulation," Volume 4, Chapter 3, Section 4.6.1. This revised approach includes updated criteria and percentages for determining the allowance for doubtful accounts, which resulted in changes to the estimated amounts compared to prior years. 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.U, 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/Intra-departmental and Other than Intra- governmental transactions and Accounts Receivable, Net, Revenue, and Unfilled Customer Orders, Note 4, *Accounts Receivable, Net*)

H. 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 Defense. As of September 30, 2024 and 2023, none of the reserve has been drawn upon, therefore the full inventory remains on hand with DoE (Refer to Note 5, *Other Assets*).

I. 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 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. These transfers are in compliance with DoD policy, Financial Management Regulations (FMR) 7000.14-R Volume 4, Chapter 4, *Inventory and Related Property*, under which DLA WCF will transfer these assets, without reimbursement, to the Military Departments upon request.

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Inventory Reserved 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 Financial Management Regulation (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 2024 NRV calculation resulted in an NRV of zero as of September 30, 2024.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Inventory and Related Property, Net, and Note 6, *Inventory and Related Property, Net*.)

J. 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 De-

partments 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 2024 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 “Fi-

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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

nancial Reporting Policy for Real Property Estimated Useful Lives, Land Valuation, and Accounting for Real Property Outside of the United States.”

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net; Note 1.O., *Environmental and Disposal Liabilities*; and Note 7, *General Property, Plant, and Equipment, Net*)

K. Leases

For FY 2024, 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*.

For FY 2023, DLA WCF did not have policies and compliant processes in place to identify, evaluate, record, and report capital and operating leases in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*.

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

L. 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 Sheets.

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 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 ex-

pense 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.)

M. Commitments and Contingencies

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: 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 Sheets and Statements 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 12, *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 11, *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 out-



REAR ADM. AMY GRABLE VISITS DLA TROOP SUPPORT

U.S. Coast Guard Rear Adm. Amy Grable, assistant commandant for engineering and logistics, visits Defense Logistics Agency Troop Support on January 8, 2024, in Philadelphia for a site visit and tour. DLA Troop Support provides more than \$19 billion in support to 51,000 global customers through a network of 3,700 suppliers, delivering optimal, global supply chain solutions with a focus on world-class performance and strong partnerships in support of national defense, humanitarian assistance and disaster relief. **Photo By:** Michael Hong

come 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.S., *Imputed Financing and Imputed Cost*; Note 10, *Other Liabilities*; Note 11, *Environmental and Disposal Liabilities*; and Note 12, *Commitments and Contingencies*.)

N. 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 8, *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 8, *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 liabilities 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 10, *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 Payable accruals are recorded to adjust the timing issues that exist when an invoice is received and posted without a goods receipt. 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.

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

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders, and Note 8, *Liabilities Not Covered by Budgetary Resources*.)

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

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. As such, DLA reversed its asset-driven E&DL in FY 2023. Due to noted deficiencies, DLA is not able to reconcile the population of real property assets that encompass the environmental sites closure and asbestos liabilities.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Commitments and Contingencies; Note 1.J., *General Property, Plant and Equipment*; Note 11, *Environmental and Disposal Liabilities*; and Note 12, *Commitments and Contingencies*.)

P. Federal Employee Benefits Payable

Payroll and Annual Leave Accruals: Accrued payroll consists of salaries, wages, and other compensation earned by employees, but not yet disbursed as of the Balance Sheet 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 9, *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 Department of Labor (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 8, *Liabilities Not Covered by Budgetary Resources*, and Note 9, *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 8, *Liabilities Not Covered by Budgetary Resources*, and Note 9, *Federal Employee Benefits Payable and Related Other Liabilities*)



OFF THE BOOKS Disposal Support Representative Leah Bailey directs sales contractor traffic at DLA Disposition Services Barstow. Bailey helped logisticians from nearby Yermo Annex take 1,400 excess vehicles and equipment items off their property books. **Photo by:** Jake Joy

Q. 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. OPM administers these benefits and provides the factors that DLA applies to calculate and recognize imputed costs, as reported in its Statements of Net Cost, and a corresponding imputed financing sources in the Statements 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.S., *Imputed Financing and Imputed Cost*)

R. 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 14, *Statement of Budgetary Resources*)

S. 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 Statements 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 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 Statements of Changes in Net Position as a financing source.

DLA Energy Standard Fuel Price: The DLA WCF uses a Standard Fuel Price (SFP) per barrel of fuel sold to customers to include DoD, U.S. Coast Guard, and Foreign Governments.

DLA WCF is responsible for recommending a SFP to OUSD(C). In the process of determining the recom-

mended 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. Based on OUSD(C) direction, the following SFPs were set during FY 2024:

Effective Date	SFP per Barrel
October 1, 2023	\$147.84
June 1, 2024	\$168.84

DLA WCF was unable to recover the full costs of the goods and services provided by DLA Energy during FY 2024. DLA was able to recover the full costs of the goods and services provided by DLA Energy during the fiscal year ended September 30, 2023.

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 2024 is \$0.075 cents per gallon. The cost-plus rate for FY 2023 was \$0.070 cents per gallon.

Supply Chain Cost Recovery Rate: 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. 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 Statements of Net Cost and are offset by imputed financing in the Statements 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 Accounts Receivable, Net; Revenue, and Unfilled Customer Orders and Inventory and Related Property, Net; Note 1.M., *Commitments and Contingencies*; Note 1.Q., *Pension Benefits* Note 4, *Accounts Receivable, Net*; Note 6, *Inventory and Related Property, Net*; and Note 13, *Exchange Revenue*.)

T. 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).

U. 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.

V. Reclassifications

The FY 2023 Balance Sheet was reclassified to conform to the FY 2024 financial statement presentation requirements in accordance with OMB Circular A-136, as amended, and included changes in the presentation to: Note 8, *Liabilities not Covered by Budgetary Resources*; Note 9, *Federal Employee Benefits Payable and Related Other Liabilities*; Note 10, *Other Liabilities*; and Note 15, *Reconciliation of Net Cost to Net Outlays*. The reclassifications had no effect on total assets, liabilities, or net position.

Note 2: Non-Entity Assets (Unaudited)

Non-Entity Assets as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Other than Intragovernmental		
Accounts Receivable, Net	\$ -	\$ 5
Total Other than Intragovernmental Assets	-	5
Total Non-Entity Assets	-	5
Total Entity Assets	31,545,047	32,954,882
Total Assets	<u>\$ 31,545,047</u>	<u>\$ 32,954,887</u>

Non-Entity Accounts Receivable, Net consists of administrative fees, interest, and penalties and fine receivables.

Note 3: Fund Balance with Treasury (Unaudited)

Fund Balance with Treasury as of September 30, 2024 and 2023, respectively, consists of the following (dollars in thousands):

	FY 2024	FY 2023
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	\$ 507,354	\$ 421,018
Obligated Balances Not Yet Disbursed	\$ 2,976,130	4,681,400
Total Fund Balance with Treasury	\$ 3,483,484	\$ 5,102,418

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 Statements of Budgetary Resources because budgetary balances are supported by amounts other than FBwT (e.g., contract authority and budgetary receivables).

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

Unobligated Balance - Unavailable includes the cumulative amount of budget authority and funds not available for obligation from offsetting collections. As of September 30, 2024 and 2023, 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. In FY 2023, this balance included \$143.0 million related to an accounts payable pending litigation, which was included in the deposit accounts as part of DoD consolidated financial statements and reported as an accounts receivable in DLA financial statements.

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, 2024 and 2023, DLA WCF does not have non-budgetary FBwT.

Other Information includes the following tables summarizing the undistributed collections and disbursements between U.S. Treasury and DLA WCF as of September 30, 2024 and 2023, respectively:

FY 2024 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	\$ 46,866,969	\$ 46,847,986	\$ 18,983
Disbursements	\$ 48,910,485	\$ 49,037,438	\$ (126,953)

FY 2023 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	\$ 44,925,246	\$ 45,064,948	\$ (139,702)
Disbursements	\$ 44,998,406	\$ 44,938,171	\$ 60,235

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

Note 4: Accounts Receivable, Net (Unaudited)

Accounts Receivable, Net as of September 30, 2024 and 2023, respectively, consists of the following (dollars in thousands):

FY 2024			
	Accounts Receivable	(Less: Allowance for Doubtful Accounts)	Accounts Receivable, Net
Intragovernmental Accounts Receivable, Net			
Energy	\$ 218,721	\$ (103)	\$ 218,618
Supply Chain Management	1,724,813	(45,547)	1,679,266
Document Services	47,590	(3,579)	44,011
Total Intragovernmental Accounts Receivable, Net	\$ 1,991,124	\$ (49,229)	\$ 1,941,895
Other than Intragovernmental Accounts Receivable, Net			
Energy	\$ 553,603	\$ (23,622)	\$ 529,981
Supply Chain Management	359,650	(21,540)	338,110
Document Services	1,003	(17)	986
Total Other than Intragovernmental Accounts Receivable, Net	\$ 914,256	\$ (45,179)	\$ 869,077
FY 2023			
	Accounts Receivable	(Less: Allowance for Doubtful Accounts)	Accounts Receivable, Net
Intragovernmental Accounts Receivable, Net			
Energy	\$ 300,896	\$ (4,849)	\$ 296,047
Supply Chain Management	1,833,261	(218,902)	1,614,359
Document Services	44,339	(10,752)	33,587
Total Intragovernmental Accounts Receivable, Net	\$ 2,178,496	\$ (234,503)	\$ 1,943,993
Other than Intragovernmental Accounts Receivable, Net			
Energy	\$ 596,559	\$ (32,262)	\$ 564,297
Supply Chain Management	390,952	(36,032)	354,920
Document Services	1,725	(32)	1,693
Total Other than Intragovernmental Accounts Receivable, Net	\$ 989,236	\$ (68,326)	\$ 920,910

Of the Total Other than Intragovernmental Accounts Receivable, Net, criminal restitutions, net consist of \$160.9 million and \$81.1 million, as of September 30, 2024 and 2023, respectively. The gross amount of criminal restitutions consists of \$166.9 million and \$91.9 million with a related

allowance of doubtful accounts of \$6.0 million and \$10.8 million as of September 30, 2024 and 2023, respectively.

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

Note 5: Other Assets (Unaudited)

Other Assets as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Intragovernmental Other Assets		
Other Assets	\$ 123,306	\$ 123,306
Total Intragovernmental Other Assets	123,306	123,306
Total Other Assets	\$ 123,306	\$ 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 6: Inventory and Related Property, Net (Unaudited)

Inventory and Related Property, Net as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	Valuation Method	FY 2024	FY 2023
Inventory Categories:			
Held for Sale	MAC	\$ 23,711,348	\$ 23,581,726
Reserved for Future Sale	MAC	329,316	292,998
Held for Repair	MAC	103,276	112,554
Less: Allowance for Repairs		(2,066)	(2,251)
Total Inventory and Related Property, Net		\$ 24,141,874	\$ 23,985,027

MAC = Moving Average Cost

As of September 30, 2024 and 2023, DLA SCM is holding \$155.9 million and \$126.2 million, respectively, of inventory not available for sale due to litigation. All inventory identified as EOU has an expected NRV of zero as of September 30, 2024 and 2023.

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

Note 7: General Property, Plant and Equipment, Net (Unaudited)

General Property, Plant and Equipment, Net as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

FY 2024			
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Major Asset Classes:			
Internal-Use Software	\$ 795,927	\$ (733,474)	\$ 62,453
General Equipment	474,767	(389,374)	85,393
Internal-Use Software in Development	65,345	-	65,345
Construction-in-Progress	672,242	-	672,242
Total General PP&E, Net	\$ 2,008,281	\$ (1,122,848)	\$ 885,433

FY 2023			
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Major Asset Classes:			
Internal-Use Software	\$ 776,068	\$ (710,818)	\$ 65,250
General Equipment	445,102	(379,367)	65,735
Internal-Use Software in Development	45,647	-	45,647
Construction-in-Progress	599,124	-	599,124
Total General PP&E, Net	\$ 1,865,941	\$ (1,090,185)	\$ 775,756

Software primarily consists of e-Procurement software, Risk Based Inspection software, and DAI software. General Equipment primarily consists of fuel handling systems, conveyor systems, scrap shredders, and electronic security systems.

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The table below discloses activity for General Property, Plant and Equipment, Net as of September 30, 2024, and 2023, respectively (dollars in thousands):

	FY 2024	FY 2023
General PP&E, Net - Beginning Balances	\$ 775,756	\$ 738,862
Capitalized Acquisitions	170,264	139,859
Dispositions	(7,750)	(31,491)
Depreciation	(49,776)	(68,704)
Transfers in/out without reimbursements	(3,061)	(2,770)
General PP&E, Net - Ending Balances	\$ 885,433	\$ 775,756

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 2024, DLA WCF transferred five real property assets in the amount of \$3.8 million to the military services. This amount consisted of an acquisition value and accumulated depreciation of \$3.9 million and \$90.0 thousand, respectively.

In FY 2023, DLA WCF transferred 43 real property assets in the amount of \$144.1 million to the military services. This amount consisted of an acquisition value and accumulated depreciation of \$149.4 million and \$5.3 million, respectively.

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



EXERCISE TALISMAN SABRE

U.S. Marines with 3rd Battalion, 1st Marine Regiment, Marine Rotational Force-Darwin 23, post security during an air assault for Exercise Talisman Sabre at Bloomsbury, Australia, July 28, 2023. The Defense Logistics Agency provided pre-planned food and fuel support during the exercise and was also on the ground to assess emerging needs in an area where DLA has a minimal footprint. **Photo by:** Marine Cpl. Emeline Molla

Note 8: Liabilities Not Covered by Budgetary Resources (Unaudited)

Liabilities Not Covered by Budgetary Resources as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Intragovernmental Liabilities		
Other Liabilities - Benefits Program Contributions Payable	\$ 18,504	\$ 19,031
Total Intragovernmental Liabilities	18,504	19,031
Other than Intragovernmental Liabilities		
Environmental and Disposal Liabilities	231,324	210,895
Federal Employee Benefits Payable	188,105	195,840
Other Liabilities	4,062	801
Total Other than Intragovernmental Liabilities	423,491	407,536
Total Liabilities Not Covered by Budgetary Resources	441,995	426,567
Total Liabilities Covered by Budgetary Resources	2,947,618	4,151,106
Total Liabilities Not Requiring Budgetary Resources	-	5
Total Liabilities	\$ 3,389,613	\$ 4,577,678

Other Liabilities - Benefits Program 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. As of September 30, 2024 and 2023, the total liabilities covered by budgetary resources for the E&DL consist of \$101.4 million and \$124.2 million, respectively.

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 contingent legal liabilities.

Liabilities Not Requiring Budgetary Resources consist of custodial activity related to taxes/fees collected from the sale of fuel, etc. that will be transferred to Treasury, which do not require budgetary resources.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders; and Commitments and Contingencies; Note 9, *Federal Employee Benefits Payable and Related Other Liabilities*; Note 11, *Environmental and Disposal Liabilities*, and Note 12, *Commitments and Contingencies*.)

Note 9: Federal Employee Benefits Payable and Related Other Liabilities (Unaudited)

Federal Employee Benefits Payable and Related Other Liabilities as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024		
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contributions and Payroll Taxes Payable	\$ 17,215	\$ (17,215)	\$ -
Unfunded FECA Liability	18,504	-	18,504
Other Post Employment Benefits Due and Payable	1,250	(1,250)	-
Total Intragovernmental Other Liabilities	\$ 36,969	\$ (18,465)	\$ 18,504
Other than Intragovernmental Federal Employee Benefits Payable			
Employer Contributions and Payroll Taxes Payable	\$ 11,030	\$ (11,030)	\$ -
Accrued Funded Payroll & Leave	250,846	(250,846)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	\$ 261,876	\$ (261,876)	\$ -
Pensions and Other Post-Employment Benefits Payable			
Actuarial FECA Liability	\$ 188,105	\$ -	\$ 188,105
Total Pensions and Other Post-Employment Benefits Payable	\$ 188,105	\$ -	\$ 188,105



NORTH PACIFIC OCEAN

Sailors prepare an F/A-18E Super Hornet, attached to the Eagles of Strike Fighter Squadron (VFA) 115, for take-off on the flight deck aboard the U.S. Navy's USS Ronald Reagan (CVN 76), in the North Pacific Ocean.

Photo by: Petty Officer 2nd Class Charlotte

FY 2023			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contributions and Payroll Taxes Payable	\$ 19,581	\$ (19,581)	\$ -
Unfunded FECA Liability	19,031	-	19,031
Other Post Employment Benefits Due and Payable	1,453	(1,453)	-
Total Intragovernmental Other Liabilities	\$ 40,065	\$ (21,034)	\$ 19,031
Other than Intragovernmental Federal Employee Benefits Payable			
Employer Contributions and Payroll Taxes Payable	\$ 26,234	\$ (26,234)	\$ -
Accrued Funded Payroll & Leave	304,507	(304,507)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	\$ 330,741	\$ (330,741)	\$ -
Pensions and Other Post-Employment Benefits Payable			
Actuarial FECA Liability	\$ 195,840	\$ -	\$ 195,840
Total Pensions and Other Post-Employment Benefits Payable	\$ 195,840	\$ -	\$ 195,840

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) include the accrued FECA liability paid by DOL but not yet reimbursed by DLA WCF.

Other Unfunded Employment Related Liability (Intragovernmental) consist 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 Intragovernmental) 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 6, *Liabilities Not Covered by Budgetary Resources*.)

Note 10: Other Liabilities (Unaudited)

Other Liabilities as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

FY 2024			
	Current	Non-Current	Total
Intragovernmental Other Liabilities			
Custodial Liabilities	\$ -	\$ -	\$ -
Total Intragovernmental Other Liabilities	\$ -	\$ -	\$ -
Other than Intragovernmental Other Liabilities			
Contract Holdbacks	\$ 771	\$ 695	\$ 1,466
Contingent Liabilities	4,062	-	4,062
Total Other than Intragovernmental Other Liabilities	\$ 4,833	\$ 695	\$ 5,528

FY 2023			
	Current	Non-Current	Total
Intragovernmental Other Liabilities			
Custodial Liabilities	\$ 5	\$ -	\$ 5
Total Intragovernmental Other Liabilities	\$ 5	\$ -	\$ 5
Other than Intragovernmental Other Liabilities			
Contract Holdbacks	\$ -	\$ 888	\$ 888
Contingent Liabilities	801	-	801
Total Other than Intragovernmental Other Liabilities	\$ 801	\$ 888	\$ 1,689

Custodial Liabilities (Intragovernmental) are liabilities for collections reported as non-exchange revenues where DLA is acting on behalf of another Federal entity. (Refer to Note 2, *Non-Entity Assets*.)

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

Contingent Liabilities (Other than Intragovernmental) are a loss determined to be probable and the amount is estimable based on the outcome of an uncertain future event. The current portion is contingencies related to litigation (refer to Note 13, *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 12, *Commitments and Contingencies*.)

Note 11: Environmental and Disposal Liabilities (Unaudited)

Environmental and Disposal Liabilities as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Environmental and Disposal Liabilities		
Other Accrued Environmental Liabilities - Non-BRAC:		
Environmental Corrective Action	\$ 332,704	\$ 335,068
Total Environmental and Disposal Liabilities	\$ 332,704	\$ 335,068

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 2024 and FY 2023, 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, 2024 and 2023, the total E&DL consist of \$332.7 million and \$335.1 million, respectively.

FY 2024 cost estimates under DLA Energy management and Non-Energy management were generated for sites with environmental corrective action costs.

Per DoD policy and FASAB guidance, Military Departments are responsible for reporting the entirety of E&DL associated with real property located on their installations for Environmental Closure Requirements and Asbestos E&DL. Accordingly, as of September 30, 2024, 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.

Beginning in FY 2023, DLA fully reduced its recognized WCF Environmental Closure Requirements and Asbestos E&DL balances to zero, in accordance with the September 2022 OUSD(C) memorandum clarifying that installation hosts are responsible for recognizing E&DL related to real property assets regardless of which entity funds and executes the closure activities.

There are no other reportable E&DL categories as listed on the DoD 7000.14-R Financial Management Regulation (FMR) Volume 6B, Chapter 10 – *Note to the Financial Statements, Paragraph 17.0 “Note 14. Environmental and Disposal Liabilities”* (February 2023).

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. 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*.

The DLA WCF is no longer required to report asset related E&DL for assets it is not reporting on its financial statements due to policy changes to the 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*, and the resulting September 2022 OUSD(C) memorandum clarifying that installation hosts are responsible for recognizing E&DL related to real property assets regardless of which entity funds and executes the closure activities. Following issuance of the OUSD(C) Memorandum, in FY 2023 DLA coordinated with, and formally notified, each Service with the intent to no longer report E&DL related to assets located on other Services' installations via signed memorandums.

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 the Disclosure of 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 annually for all projected requirements and are finalized and approved by July. The estimates are then reevaluated through a roll forward review to identify any material changes to previously approved estimates to ensure accuracy as of the financial reporting date of September 30. 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).

CTC estimates revised through roll forward, as applicable, and prior year obligations are reported in the balance as of September 30. As of the reporting date, no material changes in the total estimated cleanup costs were identified through the Roll Forward review due to changes in laws, technology, or plans.

Beginning in FY 2023, DLA fully reduced its WCF recognized Environmental Closure Requirements and Asbestos E&DL balances to zero, in accordance with the

September 2022 OUSD(C) memorandum clarifying that installation hosts are responsible for recognizing E&DL related to real property assets regardless of which entity funds and executes the closure activities. In addition, DLA WCF is not aware of any other changes to WCF E&DL estimates that would result from inflation, deflation, technology, plans, and/or pending changes to applicable laws and regulations. The cost estimate changes from prior periods are primarily driven by remediation activities and operations, as evidenced by UDOs; there are minor adjustments for inflation or other similar administrative costs throughout the fiscal year. E&DL estimates 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 ELM process are considered accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates

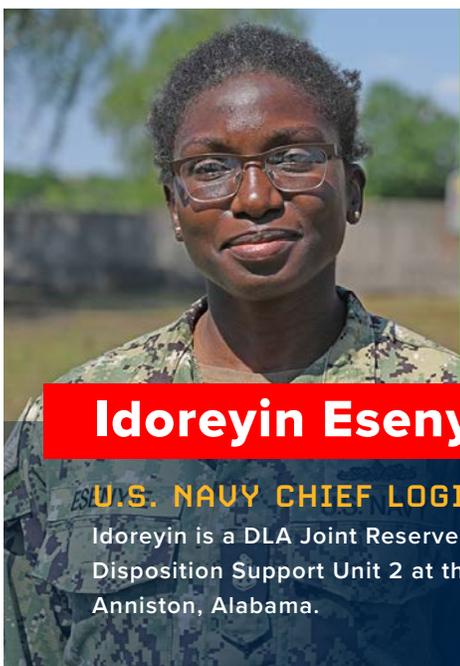
are calculated. Actual costs may materially vary from the accounting estimates if agreements with regulatory agencies require remediation or closure activities to a different degree than anticipated when calculating the estimates. WCF E&DL can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimated parameters.

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 sup-



"The team was forced to overcome and adapt to a variety of challenges. And I love seeing that."

Idoreyin Esenyie

U.S. NAVY CHIEF LOGISTICS SPECIALIST

Idoreyin is a DLA Joint Reserve Force service member assigned to Disposition Support Unit 2 at the DLA Disposition Services site in Anniston, Alabama.



ply 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 Department of Health 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, 2024, the DoD-wide known projected costs to defuel and permanently close the Red Hill Fuel Storage Facility total \$2.0 billion, as documented in the "Department of Defense Report on Red Hill Response Cost Projections", dated August 31, 2022. Of this amount, DLA's projected cost is \$1.4 billion for emergency defueling and fuel dispersal. For the years ended September 30, 2024 and 2023, the DLA obligated \$376.9 million and \$759.8 million, respectively. As these costs to date reflect operational closure activities and not environmental remediation costs, these costs spent to date are not E&DL. Environmental Corrective Actions required to clean up prior petroleum releases (event-driven liability) at the Red Hill facility are cur-

rently 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.

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.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Commitments and Contingencies; Note 8, *Liabilities Not Covered by Budgetary Resources*; and Note 12, *Commitments and Contingencies*)



RAIL OPERATIONS

Soldiers from the 29th Infantry Brigade Combat Team conduct rail operations on tactical vehicles transported from Hawaii at Fort Johnson, Louisiana. Brigade combat teams and security force assistance brigades conduct simulated large-scale combat operations against near-peer threats at the Joint Readiness Training Center and Fort Johnson to increase readiness and support globally deployable missions.

Photo by: Spc. Sean Walker

Note 12: Commitments and Contingencies (Unaudited)

Accrued and reasonably possible legal and environmental contingent liabilities as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

FY 2024				
	Accrued Liabilities	Estimated Range of Loss		
		Lower End	Upper End	
Legal Contingencies				
Probable	\$ 4,062	\$ 4,062	\$ 17,971	
Reasonably Possible		\$ 25	\$ 252,711	
Environmental Contingencies				
Probable	\$ 332,704	\$ -	\$ -	
Reasonably Possible		\$ -	\$ -	

FY 2023				
	Accrued Liabilities	Estimated Range of Loss		
		Lower End	Upper End	
Legal Contingencies				
Probable	\$ 801	\$ 801	\$ 1,710	
Reasonably Possible		\$ 33,191	\$ 551,849	
Environmental Contingencies				
Probable	\$ 335,068	\$ -	\$ -	
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. 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 ac-

tions 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 10, *Other Liabilities*) within Other Liabilities in the Balance Sheets.

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 93 legal matters classified as “Reasonably Possible”, there are 17 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 17 matters, the total claimed against the government is \$158.6 thousand.

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 11, *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 Sheets. DLA WCF does not have contract financing payment contingencies as of September 30, 2024.

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 10, *Other Liabilities*; and Note 11, *Environmental and Disposal Liabilities*.)



FUTURE FORCE

Air Force Master Sgt. Dominic Garcia and team members assigned to the 2nd Civil Engineer Squadron operate Atom, a robot dog, at Barksdale Air Force Base, La. **Photo By:** Air Force Senior Airman William Pugh

Note 13: 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 break-even 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 and product costs on an annual basis (refer to Note 1.S, Revenue and Other Financing Sources, related to non-NSN and cost-plus pricing).

For the years ended September 30, 2024 and 2023, DLA WCF recognized other accounting gains of approximately \$1.3 billion, and losses of approximately \$2.0 billion and \$1.6 billion, respectively, derived from supply chain activities involving MAC updates, receipts without purchase orders, errors due to inventory receipts, NRV updates, and disposal of demilitarized property.

(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.)

Note 14: 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,

unobligated balance transferred from other accounts 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 2024	FY 2023
Reconciliation of PY Ending Unobligated Balances of CY Beginning Unobligated Balances SBR line 1071		
Unobligated balance brought forward, October 1	\$ 421,018	\$ 1,081,109
Unobligated balance transferred from other accounts	319,019	119,520
Recoveries of prior year unpaid obligations	8,314,579	8,931,491
Unobligated balance of contract authority withdrawn (-)	(8,302,802)	(8,920,998)
Unobligated balance, total	\$ 751,814	\$ 1,211,122

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 Statements of Budgetary Resources has decreased to \$55.7 billion as of September 30, 2024, from \$56.8 billion as of September 30, 2023.

Undelivered Orders (UDOs): For the years ended September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Intragovernmental Undelivered Orders		
Unpaid	\$ 2,834,277	\$ 1,367,053
Total Intragovernmental Undelivered Orders	2,834,277	1,367,053
Other than Intragovernmental Undelivered Orders		
Unpaid	28,831,457	30,167,396
Paid	99,978	103,477
Total Other than Intragovernmental Undelivered Orders	28,931,435	30,270,873
Total Undelivered Orders	\$ 31,765,712	\$ 31,637,926

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 years ended September 30, 2024 and 2023, respectively, 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 Sheets.

(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, 2024, DLA WCF received additional funding through the allotment of appropriations from DoD reprogramming actions in the amount of \$425.4 million. This consisted of \$319.0 million in transfers of prior year balances and \$106.4 millions of current year authority. For the year ended September 30, 2023, DLA WCF received \$472.6 million from DoD reprogramming actions. This consisted of \$119.5 million of transfers of prior year balances and \$353.1 million of current year authority.

Note 15: Reconciliation of Net Cost to Net Outlays (Unaudited)

Reconciliation of Net Cost to Net Outlays for the years ended September 30, 2024 and 2023, consist of the following (dollars in thousands):

	FY 2024		
	Intragovernmental	Other than Intragovernmental	Total
NET COST	\$ (34,916,478)	\$ 36,380,245	\$ 1,463,767
Components of Net Cost That are Not Part of Net Outlays			
General Property, Plant and Equipment Depreciation	-	(49,776)	(49,776)
General Property, Plant and Equipment Disposal	-	(13,871)	(13,871)
Cost of Goods Sold	(6,970,829)	(29,959,321)	(36,930,150)
Cost Capitalization Offset	-	170,264	170,264
Net Gains/(Losses)	-	(2,340)	(2,340)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(2,098)	(51,833)	(53,931)
Advances and Prepayments	-	(3,499)	(3,499)
(Increase)/Decrease in Liabilities:			
Accounts Payable	(27,356)	982,622	955,266
Environmental and Disposal Liabilities	-	2,364	2,364
Federal Employee Salary, Leave, and Benefits Payable	-	68,865	68,865
Pension and Other Post Employment Benefits Payable	-	7,735	7,735
Advances from Others and Deferred Revenue	155,066	(493)	154,573
Other Liabilities	3,101	(3,839)	(738)
Financing Sources:			
Imputed Financing	(278,639)	-	(278,639)
Total Components of Net Cost That are Not Part of Net Outlays	(7,120,755)	(28,853,122)	(35,973,877)
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of Inventory and Related Property	191,414	37,126,773	37,318,187
Transfer in/out without Reimbursements	(537,967)	-	(537,967)
Total Components of Net Outlays That are Not Part of Net Cost	(346,553)	37,126,773	36,780,220
Miscellaneous Items			
Other	-	-	-
Total Other Reconciling Items	-	-	-
NET OUTLAYS	\$ (42,383,786)	\$ 44,653,896	2,270,110
Outlays, Net, Statements of Budgetary Resources			2,044,436
Reconciling Difference			\$ 225,674

FY 2023

	Intragovernmental	Other than Intragovernmental	Total
NET COST	\$ (35,295,051)	\$ 33,702,077	\$ (1,592,974)
Components of Net Cost That are Not Part of Net Outlays			
General Property, Plant and Equipment Depreciation	-	(68,704)	(68,704)
General Property, Plant and Equipment Disposal	-	(31,493)	(31,493)
Cost of Goods Sold	(6,374,788)	(29,375,637)	(35,750,425)
Cost Capitalization Offset	-	139,859	139,859
Net Gains/(Losses)	-	(272,731)	(272,731)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	398,709	195,021	593,730
Advances and Prepayments	-	9,174	9,174
(Increase)/Decrease in Liabilities:			
Accounts Payable	60,211	(658,926)	(598,715)
Environmental and Disposal Liabilities	-	898,719	898,719
Federal Employee Salary, Leave, and Benefits Payable	-	(7,722)	(7,722)
Pension and Other Post Employment Benefits Payable	-	(46,957)	(46,957)
Advances from Others and Deferred Revenue	993,880	(947)	992,933
Other Liabilities	4,735	(1,504)	3,231
Financing Sources:			
Imputed Financing	(229,987)	-	(229,987)
Total Components of Net Cost That are Not Part of Net Outlays	(5,147,240)	(29,221,848)	(34,369,088)
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of Inventory and Related Property	216,894	35,863,560	36,080,454
Transfer in/out without Reimbursements	-	-	-
Total Components of Net Outlays That are Not Part of Net Cost	216,894	35,863,560	36,080,454
Miscellaneous Items			
Other	1,012	8,168	9,180
Total Other Reconciling Items	1,012	8,168	9,180
NET OUTLAYS	\$ (40,224,385)	\$ 40,351,957	127,572
Outlays, Net, Statements of Budgetary Resources			73,161
Reconciling Difference			\$ 54,411

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

Components of Net Cost Not Part of Budgetary Outlays:

Includes proprietary accounts that are the result of allocating assets to expenses over more than one reporting period, the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and costs financed by other entities (imputed inter-entity costs).

Components of Net Outlays That are Not Part of Net Cost:

Includes amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet.

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

For FY 2024, the key reconciling differences between the net cost and the net outlays for DLA WCF included: (1) the Cost of Goods Sold were operating expenses for inventory purchases and have no impact on net outlays; (2) Accounts Payable for goods and services received but not yet paid for and have no impact on net outlays; and (3) the acquisition of capital assets that have no impact on net cost.

For FY 2023, the key reconciling differences between the net cost and the net outlays for DLA WCF included: (1) the Cost of Goods Sold were operating expenses for inventory purchases and have no impact on net outlays; (2) Intragovernmental: Accounts Payable for goods and services received but not yet paid for and have no impact on net outlays; Other than Intragovernmental: Accounts Payable due to lower quantities and cost of fuel purchases, and a disbursement of a settlement agreement. ; (3) future funded expenses related to Environmental and Disposal Liabilities that have no impact on net outlays; (4) Advances from Others and Deferred Revenue due to additional cash advances from the HHS related to COVID-19 relief efforts; and (5) the acquisition of capital assets that have 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.)



THE ROCK

Dwayne "The Rock" Johnson visits with service members at the Pentagon. **Photo By:** Henry Villarama, Army



DEFENSE LOGISTICS AGENCY PROVIDES LOWER PHARMACEUTICAL PRICING TO DOD CUSTOMERS

Hospital Corpsman 2nd Class Michael Rodriguez, from San Diego, assigned to the aircraft carrier USS John C. Stennis (CVN 74), organizes medication on the floating accommodation facility, in Newport News, Virginia, Aug. 10, 2022. Troop Support's medical supply chain procures items requested by partners, like the Navy, at a lower cost through strategic cost avoidance engineering. **Photo By:** Navy Mass Communication Specialist 2nd Class Jesus Aguiar

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 (i.e., financial reporting and disclosures such as, but not limited to, note disclosures, deferred maintenance and repair, and other required supplemental information (RSI)). DLA WCF and the Army continue to negotiate the final transfer of all responsibilities of these assets as of September 30, 2024. In addition, DLA also pays for operation costs related to RP transferred out to other Military Services since FY 2020 and continue usage of these properties.

Therefore, 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 they should have been or were scheduled and delayed for a future period are considered Deferred Maintenance and Repairs (DM&R). DM&R for the years ended September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2023	FY 2024
Active		
Category 1: Building, Structures, and Linear Structure (Enduring Facilities)	\$ 1,373,767	\$ 6,067,049
Category 2: Building, Structures, and Linear Structure (Heritage Assets)	1,100	2,092
Total Active	<u>\$ 1,374,867</u>	<u>\$ 6,069,141</u>
Inactive and Excess		
Category 3: Building, Structures, and Linear Structure (Excess Facility or Planned for Replacement)	\$ -	\$ -
Total Inactive and Excess	<u>\$ -</u>	<u>\$ -</u>
Total Deferred Maintenance	<u>\$ 1,374,867</u>	<u>\$ 6,069,141</u>

M&R Policies Installation & Equipment (DM-I) manages only the DLA Non-Energy portion of the Sustainment, Restoration, and Maintenance (SRM) program. DLA Energy runs a separate SRM program independent of DM-I. DM-I continues to conduct condition assessments of DLA Non-Energy facilities using the USACE Sustainment Management System (SMS) BUILDER. The Under Secretary of Defense memorandum

dated September 10, 2013, mandated use of the reported SMS BUILDER for all DoD facilities. BUILDER captures all-assessed facility deficiencies or work items categorized by fiscal year along with a cost estimate. As a result, BUILDER generates a consistent and uniform Facility Condition Index (FCI) for assessed DoD facilities.

M&R Prioritization Planning, programming, and execution of the DLA Non-Energy SRM program is executed IAW DLAI 4165.02 (dated 16 Feb 2022) using the following priorities:

- A. Life, health, and safety concerns (cannot mitigate)
- B. Facilities with an FCI of 60 or less
- C. Security deficiencies including cyber security (cannot mitigate)
- D. Environmental deficiencies addressing non-compliance (cannot mitigate)
- E. Warfighter support facilities (mission failure)
- F. Energy conservation projects (as mandated)
- G. Warfighter support facilities (mission impact)
- H. Routine maintenance (no mission impact)

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 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. 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: the FCI, Condition Index (CI), and BUILDER Condition Index (BCI). Those technical criteria are used differently to assess facility conditions.

Capitalization of DM&R The deferred maintenance and repair 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 deferred maintenance and repair information include only facilities in Active and To Be Acquired status. It excludes facilities in a semi-active status, caretaker, out granted, non-functional, environmental hold status, closed, disposed, excess, surplus, or returned to the service Components.

Changes Year-to-Year The change of deferred maintenance and repair balance is due in large part to significant cost factor increase from previous years because inflation in labor and materials costs are updated by Gordian in the DoD Cost Book used by SMS Builder to estimate maintenance and repair work items. There are significant changes to PRV reporting of excess facilities as real property reconciliation continues with the Military Departments, reflecting a more accurate real property inventory. Currently, the ESMS BUILDER Database is updated manually by providing ad-hoc updates to the ESMS Developer Team to go and update the completed work items which were previously reporting as deficiencies. This process is not yet automated or user-driven and is labor intensive, resulting in delays and backlogs.

Facility Condition Assessments conducted in FY 2024 at Defense Supply Center Columbus, Naval Station Rota, JB Pearl Harbor Hickham, and Tinker Air Force Base and others resulted in updates to over 10 million square feet of condition assessments. This updated our system-calculated condition indexes with verified visual assessments, reducing deferred maintenance and repairs by updating the component work item backlog.

The DLA Energy is funded to 100% of the Facility Sustainment Model and obligated 100% of those funds

in FY 2024; 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.

For Heritage facilities (Non-Energy), the PRV increased slightly from \$3.3 million to \$4.7 million due to asset valuation as well as inclusion of several new assets (due to Inventory reconciliation, not new construction).

For FY 2024, the established Mission Dependency Index (MDI) and Mission Criticality Index (MCI) are both in development for use by the DoD. MDI is a local metric at the Installation level and does not reflect strategic mission goals. MCI is a greater strategic metric which is not currently being utilized by DLA as it needs further development in order to nest with Military Department and Combatant Commander priorities and lines of effort.

In FY 2025, DLA will be defining the mission critical facilities based on a Major Subordinate Command (MSC) level in alignment with DLA lines of effort.



76 CMXG STARTS SAND CASTING ALUMINUM PARTS

Ted Fetchik, a 553rd Commodities Maintenance Squadron welder, pours molten aluminum into a mold at Tinker Air Force Base, Oklahoma, June 1, 2023. The 76th Commodities Maintenance Group and the Reverse Engineering and Critical Tooling Lab have recently added the ability to sand cast in aluminum, creating parts weighing up to 120 pounds through its newly launched foundry. **Photo by:** U.S. Air Force photo by Paul Shirk

Combining Statements of Budgetary Resources

The Combining Statements 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., *Combining Statements of Budgetary Resources*). The following schedules provide the Combining Statements of Budgetary Resources disaggregated by DLA WCF activities for the year ended September 30, 2024 and 2023, respectively.

Combining Statement of Budgetary Resources

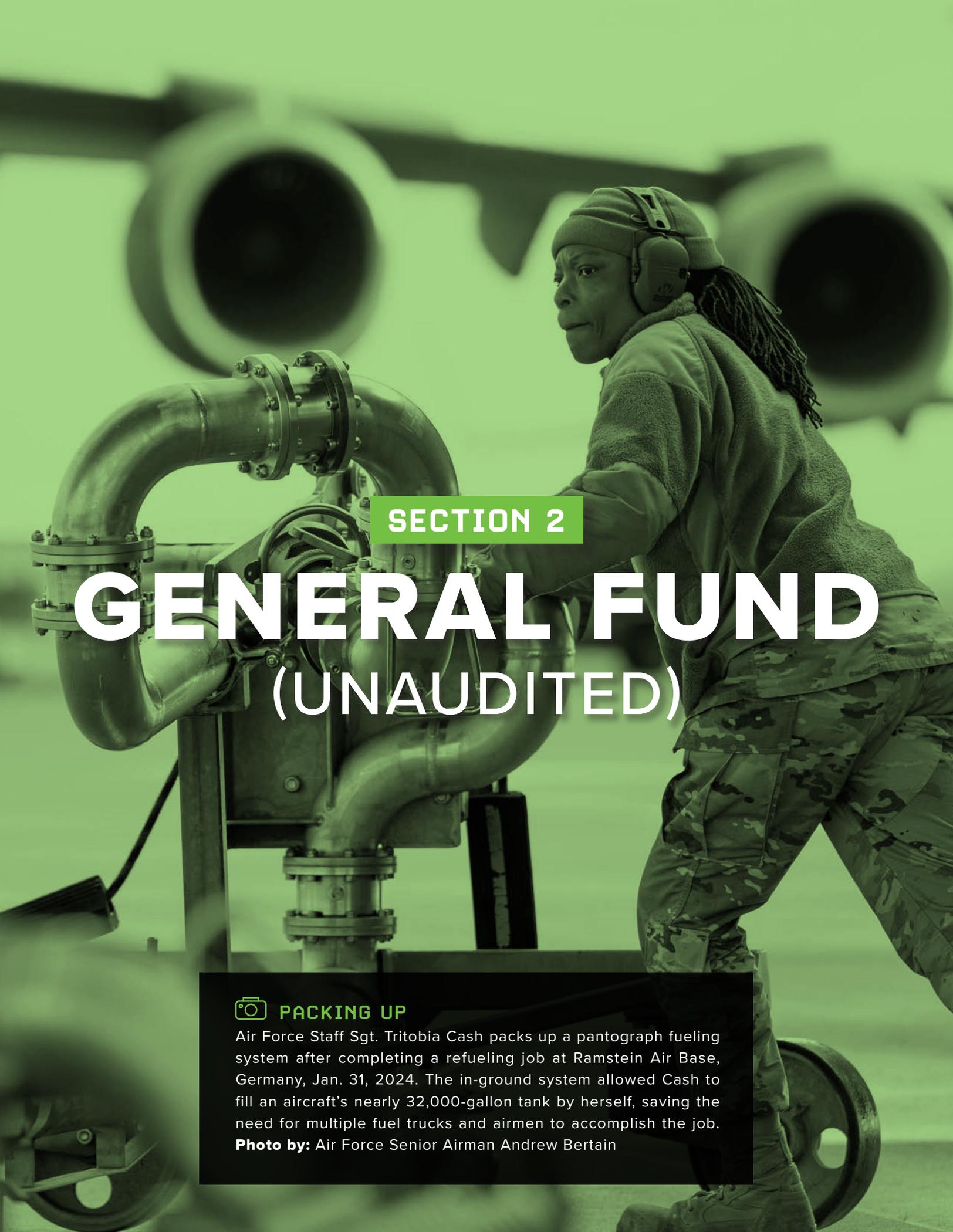
For the Year Ended September 30, 2024 (dollars in thousands)

	Energy	Supply Chain Management	Document Services	FY 2024 Total
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net	\$ 393,359	\$ 214,635	\$ 143,820	\$ 751,814
Appropriations	106,363	-	4	106,367
Contract Authority	17,052,308	38,619,377	-	55,671,685
Spending Authority from Offsetting Collections	-	-	308,560	308,560
TOTAL BUDGETARY RESOURCES	\$ 17,552,030	\$ 38,834,012	\$ 452,384	\$ 56,838,426
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments	\$ 17,396,275	\$ 38,619,425	\$ 315,372	\$ 56,331,072
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	155,755	214,587	137,012	507,354
Unexpired Unobligated Balance, End of Year	155,755	214,587	137,012	507,354
Total Unobligated Balance, End of Year	155,755	214,587	137,012	507,354
TOTAL BUDGETARY RESOURCES	\$ 17,552,030	\$ 38,834,012	\$ 452,384	\$ 56,838,426
OUTLAYS, NET				
Outlays, Net	\$ 1,360,494	\$ 695,811	\$ (11,869)	\$ 2,044,436
AGENCY OUTLAYS, NET	\$ 1,360,494	\$ 695,811	\$ (11,869)	\$ 2,044,436

Combining Statements of Budgetary Resources

For the Year Ended September 30, 2023 (dollars in thousands)

	Energy	Supply Chain Management	Document Services	FY 2023 Total
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net	\$ 860,447	\$ 236,018	\$ 114,657	\$ 1,211,122
Appropriations	353,114	-	2	353,116
Contract Authority	21,096,155	35,678,390	4,380	56,778,925
Spending Authority from Offsetting Collections	-	-	321,458	321,458
TOTAL BUDGETARY RESOURCES	\$ 22,309,716	\$ 35,914,408	\$ 440,497	\$ 58,664,621
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments	\$ 22,238,859	\$ 35,699,780	\$ 304,964	\$ 58,243,603
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	70,857	214,628	135,533	421,018
Unexpired Unobligated Balance, End of Year	70,857	214,628	135,533	421,018
Total Unobligated Balance, End of Year	70,857	214,628	135,533	421,018
TOTAL BUDGETARY RESOURCES	\$ 22,309,716	\$ 35,914,408	\$ 440,497	\$ 58,664,621
OUTLAYS, NET				
Outlays, Net	\$ (201,164)	\$ 294,200	\$ (19,874)	\$ 73,162
AGENCY OUTLAYS, NET	\$ (201,164)	\$ 294,200	\$ (19,874)	\$ 73,162

A woman in military uniform, wearing a headset and a beanie, is operating a large, complex industrial fueling system. The system consists of various pipes, valves, and a large cylindrical tank. The background shows the tail section of an aircraft with two engines. The entire image has a green tint.

SECTION 2

GENERAL FUND (UNAUDITED)

PACKING UP

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

Photo by: Air Force Senior Airman Andrew Bertain

AUDIT REPORTS



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

November 8, 2024

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Logistics Agency General Fund Financial Statements and Related Notes for FY 2024 and FY 2023
(Project No. D2024-D000FE-0047.000, Report No. DODIG-2025-020)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Defense Logistics Agency (DLA) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2024, and 2023. 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 General Fund'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 2024; Volume 2, June 2024; and Volume 3, July 2024. 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 General Fund 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 General Fund FY 2024 and FY 2023 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting," discusses eight material weaknesses related to the DLA General

Fund's internal controls over financial reporting.* Specifically, EY's report stated that the DLA General Fund did not:

- value and reconcile Property, Plant, and Equipment;
- reconcile and record Fund Balance with Treasury accurately;
- identify and record Accounts Receivable and revenue transactions properly;
- support and record Accounts Payable, expenses, and related budgetary balances;
- design controls over the financial statement reporting process to identify and prevent inaccurate balances and footnotes;
- document end-to-end business processes, monitor internal control risks, and remediate audit findings;
- record progress payments on long-term production contracts; or
- ensure the effective design and operation of financial reporting information systems.

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

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DLA General Fund FY 2024 and FY 2023 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial

* 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.

reporting, on whether the DLA General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2024 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.

FOR THE INSPECTOR GENERAL:



Lorin T. Venable, CPA

Assistant Inspector General for Audit
Financial Management and Reporting

Attachments:

As stated



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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the General Fund (GF) of the Defense Logistics Agency (DLA), which comprise the balance sheets as of September 30, 2024 and 2023, and the related statements of net cost and changes in net position and combined statements of budgetary resources for the years 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 years ended September 30, 2024 and 2023.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, DLA has not implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on DLA’s financial statements as of and for the years ended September 30, 2024 and 2023 is not currently determinable by DLA and could be material.

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 the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 8, 2024, 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.

The signature of Ernst & Young LLP is written in a black, cursive script. The words 'Ernst & Young' are written in a larger, more prominent font, with 'LLP' in a smaller font to the right.

November 8, 2024



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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 General Fund of the Defense Logistics Agency (DLA), which comprise the balance sheet as of September 30, 2024, 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 8, 2024 expressed a disclaimer opinion thereon that included a Departure from U.S. Generally Accepted Accounting Principles section regarding DLA not having implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on DLA’s financial statements as of and for the years ended September 30, 2024 and 2023 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 ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below and in more detail in 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 VIII 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 deficiency in internal control described below and in Appendix B as item I to be a significant deficiency.

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. Property, Plant and Equipment (PP&E) – PP&E includes internal use software (IUS) and construction-in-progress (CIP). DLA did not have policies, procedures and controls to identify and support the costs associated with the construction and completion of assets in order to properly value the assets and had weaknesses in the processes of maintaining and reconciling PP&E records. Therefore, DLA was unable to support the existence, completeness, rights and valuation of its PP&E. The combination of deficiencies in aggregate results in a material weakness in internal control related to PP&E. The matters identified related to PP&E 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 directly to 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 Services (DFAS), has implemented the 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 sufficient 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 providing services to other federal agencies. Revenue is earned when DLA provides services to the public or other federal entities. DLA was unable to support the balances recorded as AR, properly identify valid unfilled customer orders, and had not supported transactions recorded. In addition, DLA did not have adequate policies, procedures and controls to record AR and revenue transactions in the proper period and accurately in accordance with U.S. generally accepted accounting principles (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 adequate 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 record transactions in the procure to pay process in the proper period. 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 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 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, sub-allotees, 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. Accounting for Long-Term Production Contracts – A long-term production contract is an agreement between two or more parties to produce goods, which is expected to be performed over a period of more than 12 months. The progress payment clause of the Federal Acquisition Regulation (FAR) allows the government to make payments to the contractor as work is performed. DLA did not have adequate policies, procedures and controls to record progress payments in accordance with U.S. GAAP. The matters identified related to accounting for long-term production contracts result in a material weakness and are further described in Appendix A.

VIII. 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.



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. 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 EL 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 8, 2024. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2024 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.

The signature of Ernst & Young LLP is written in a black, cursive script font.

November 8, 2024



Appendix A – Material Weaknesses

I. Property, Plant and Equipment

Property, Plant and Equipment (PP&E) is comprised of 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 not able to support the existence, completeness, rights, and valuation of its PP&E.

- A. Lack of or Inadequate Documentation of Accounting Policies and Procedures, Including Controls.** PP&E process documentation, policy memoranda and standard operating procedures failed to document the end-to-end processing of PP&E transactions and related internal control activities. Specifically, a complete inventory and reconciliation of CIP had not been performed. DLA is in the process of establishing or revising its policies and procedures for performing the inventories and reconciliations on an ongoing basis and transferring of CIP assets upon completion.
- 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 and are complete, 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 existence and completeness of CIP assets.
- C. Lack of or Inadequate Policies, Procedures and Controls Over PP&E Processes.** DLA lacked or did not have adequate policies, procedures and controls, including the design of controls over the following:
- **Inadequately Designed Controls Over PP&E Processes.** Controls that have been implemented were not designed adequately and 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.
 - **CIP.** Controls that have been designed to reconcile transactional data from construction agents to CIP balances on the financial statements were not executed.
 - **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.



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 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 Statement of Federal Financial Accounting Standards (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 values assigned for CIP in accordance with SFFAS No. 6 and DLA was unable to support the values assigned to IUS 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 Accounting Policies and Procedures, Including Controls.** Document, update and finalize the process cycle memoranda (PCM) that document the end-to-end processes and controls for PP&E, including monitoring and reconciling funding provided to construction agents and the transfer of CIP assets to the military services when they are placed into service. 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 CIP assets exist and are recorded completely and accurately.
- 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. Specifically, 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.
 - **CIP.** Execute internal controls to ensure DLA has appropriate oversight, review and monitoring of CIP assets and related balances recorded on the financial statements.
 - **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. 6, SFFAS No. 10, and SFFAS No. 50. The policies, procedures and controls should include assessing whether the values assigned to CIP and IUS assets are in accordance with SFFAS No. 6 and SFFAS No. 10 respectively. 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. 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, Sections 5125 and 5130 require 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 Accounts.** The documentation did not include the process to correctly identify and resolve suspense amounts.
- **Reconciling Items to Treasury.** The documentation did not include the processes to research and resolve differences between U.S. Treasury, disbursing system records and accounting system records on a timely basis.

B. 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 tie 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.

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



Recommendations

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

- A. **Lack of or Inadequate Documentation of FBwT Accounting Policies, Procedures and Controls.** Finalize the documentation of the end-to-end process for FBwT. The documentation should include the process to perform regular and recurring reconciliations of the suspense account data and the process to research and resolve differences between U.S. Treasury, disbursing system records and accounting system records within a timely basis.
- B. **Lack of Controls for the Reconciliation of FBwT Between the General Ledger and U.S. Treasury.** Develop and implement controls to reconcile the transactions recorded in the general ledger to the transactions reported to U.S. Treasury in order to verify that the data was processed correctly.
- C. **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.

III. Accounts Receivable and Revenue

Accounts receivable (AR) consist of amounts owed to DLA. Revenue is earned when DLA provides services to the public or other federal entities. Unfilled Customer Orders (UCOs) represent the amount of goods and/or services to be furnished to other federal government entities and for the public. AR, revenue and UCOs 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 and budgetary transactions 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. DLA has a significant volume of intra-governmental transactions in the order-to-cash process, which represent reimbursable agreements to provide services 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 and related budgetary 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 UCOs.
 - **UCOs.** The documentation did not include the process to review the validity of significantly aged UCOs in the general ledger despite being closed through other business processes and systems.



B. Lack of or Inadequate Documentation to Substantiate UCOs, AR, Revenue Transactions and Controls. DLA was unable to provide documentation that UCO and AR balances exist and are accurate, revenue and corresponding budgetary balances occurred, are accurate and that transactions were recorded in the proper period. Specifically, documentation was not available to support:

- **UCOs.** The balance of UCO transactions is complete and accurate.
- **Revenue.** Revenue transactions occurred, were matched with related expenses and were recorded accurately and in the proper period.
- **AR.** Receivable balances are valid and have not been collected (i.e., existence and completeness).

C. 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 inaccurate presentation of revenue on the statement of net cost and in the related footnote disclosure. Specifically, DLA did not assess the proper revenue recognition for services produced to order in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Recommendations

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

- A. Lack of or Inadequate Documentation of Accounting Policies and Procedures, including Controls.** The documentation should include the process to review the aged UCO balances for validity.
- B. Lack of or Inadequate Documentation to Substantiate UCOs, AR and Revenue Transactions and Controls.** Develop documentation, including detailed listings of account balances, to substantiate that the balance of UCO, AR (federal and with the public), revenue and corresponding budgetary transactions are complete, accurate, and recorded and matched with related expenses in the proper period and that the balances exist or have occurred. The listing should be reconciled to the general ledger.
- C. Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** Design policies, procedures and control to implement the appropriate accounting standards, specifically SFFAS No. 7. The policies, procedures and controls should include assessing the method used to recognize revenue for specific services produced to order. Specifically, DLA should assess whether the percentage-of-completion method should be used, as prescribed by SFFAS No. 7.



IV. Accounts Payable and Expenses

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 the operations, DLA has a significant volume of transactions to procure goods and services. Deficiencies exist in DLA's processes for recording and supporting the accounts payable and accruals, expenses and related budgetary balances; recording obligations and accounts payable 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, AP, Unliquidated Obligation (ULO) and Expenses Accounting Policies, Procedures and Controls. DLA did not document the end-to-end process to account for UDOs, AP and expense transactions.

- **UDOs.** The documentation did not include the process to review the validity of significantly aged UDOs and UDOs funded by expired and cancelling authority.
- **AP.** The documentation did not include the process to evaluate the validity of AP, including significantly aged AP, negative payables and AP from canceled appropriations; the process to record invoices 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.
- **ULO.** The documentation did not include the process to review the validity of significantly aged ULO.

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

- **UDOs.** DLA lacked controls to approve and record obligations in a timely manner, controls to record upward and downward adjustments to UDOs accurately and timely, and controls to review and close invalid UDOs in a timely manner.
- **Vendor Contracts.** DLA lacked controls to execute contracts in accordance with the Federal Acquisition Regulation (FAR) and to 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 the contract award date.



- **AP and Cash Disbursements.** DLA lacked controls to post goods receipts and the related AP in a timely manner, review invoices prior to payment, and review payments that fail to post systematically in a timely manner.
- **Expenses Recorded in the Appropriate Period.** DLA lacked controls to record expense transactions appropriately and accurately in the period that the transactions occurred.

C. Lack of or Inadequate Documentation to Substantiate AP and Expense Transactions. DLA was unable to provide documentation to support the existence of accounts payable balances, and 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, such as accounts payable, accounts payable from canceled appropriations, negative payables, expenses, 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 had not implemented or applied the accounting set forth by SFFAS No. 1, *Accounting for Selected Assets and Liabilities*; No. 4, *Managerial Cost Accounting Standards and Concepts*; and No. 5, *Accounting for Liabilities of the Federal Government*. For example:

- DLA processes allow 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, and it results in an understatement of expenses and payables and a misstatement of UDOs. The quarterly adjustment to offset the negative payable balances recorded results in an overstatement of Accounts Payable.
- Accounts payable and accrued liabilities were not recorded appropriately. For example, DLA applied the straight-line method to calculate the accrual amount but did not perform any assessment to determine whether this is an appropriate methodology. Particularly, for agreements that do not have a fixed monthly cost, the straight-line method is not appropriate.

Recommendations

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

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



- **UDOs.** The documentation should include the processes to review the validity of significantly aged UDOs and UDOs funded by expired and cancelling authority and include a process to write off residual UDOs for completed transactions.
- **AP.** The documentation should include the process to evaluate the validity of accounts payable, including significantly aged AP, negative payables and AP from canceled appropriations; the process to record invoices in the general ledger and submit to DFAS for payment timely; and the process to pay invoices timely or assess interest penalties for late payment in accordance with the Prompt Payment Act.
- **ULO.** The documentation should include the process to review the validity of significantly aged ULO, including the process to write off residual ULO for completed transactions.

B. Lack of or Inadequate Controls over UDOs, AP, Expenses and Cash Disbursement Process

- **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 review and close invalid UDOs in a timely manner.
- **Vendor Contracts.** Design and implement controls to execute contracts in accordance with the FAR and record obligations timely for contracts, including IQCs. 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 and the related AP in a timely manner; review invoices prior to payment; and review payments, including payments that fail to post systematically, and ensure that they are posted in a timely manner.
- **Expenses Recorded in the Appropriate Period.** Design and implement controls to record expense transactions appropriately and accurately and in the period that the transaction occurred, and controls to monitor expense transactions at or near period-end.

C. Lack of or Inadequate Documentation to Substantiate AP and Expense Transactions. Develop documentation to support that AP and corresponding budgetary balances exist, and 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 and procedures to record expenses incurred in the proper period and classify costs and payables in accordance with SFFAS No. 1, No. 4 and No. 5.



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. 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 financial position and results of operations.

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 which impact opening balances.
- **Funds Management.** The documentation did not sufficiently include a description of the process to record budget authority, the transfer process, or the year-end processes for cancelling and expiring funds.

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 and inappropriately combined entries to record the movement of budgetary funds through the apportionment and allotment process, which should be recorded separately.

C. Lack of or Inadequate Controls Over Financial Reporting Processes. DLA lacked or did not have adequate controls, including the design of 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. 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 accounts receivable, accounts payable, 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 the Defense



Departmental Reporting System (DDRS) as “top-side” adjustments and were identified as “unsupported” by DFAS.

- **Contingent Liabilities.** DLA did not have adequate controls to identify and account for contingent legal liabilities that should be recorded or disclosed in the financial statements. Controls that were implemented were not adequately designed as they did not include sufficient procedures to verify the data used to assess contingent liabilities were complete and accurate.
- **Financial Statement Close Process.** DLA did not have adequately designed controls around the annual close and reconciliation processes, such as the following: the monthly and quarterly reconciliation between the unadjusted trial balance (UTB) and the adjusted trial balance (ATB), including sub-allottee balances, 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 recorded unsupported monthly and quarterly JV 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 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.
- **Accounting Standards.** DLA did not have policies, procedures and controls to effectively implement accounting standards such as SFFAS No. 47 *Reporting Entity*, SFFAS No. 49 *Public-Private Partnerships: Disclosure Requirements*, SFFAS No. 53 *Budget and Accrual Reconciliation*, SFFAS 54 *Leases*, SFFAS 55 *Amending Inter-Entity Cost Provisions*, SFFAS 58 *Deferral of the Effective Date of SFFAS 54*, and SFFAS 62 *Transitional Amendment to SFFAS 54*.



- **Transactions Recorded Using Elevated Privileges.** DLA did not have adequately designed controls to review and approve transactions recorded with elevated access privileges.
 - **Receipt of Budgetary Funding.** DLA did not have adequate controls to identify variances in the reconciliation of budgetary funding, including the reconciliation to the public law.
- 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 conditions described above:

- A. **Lack of or Inadequate Documentation of Financial Reporting and Budgetary Policies, Procedures, and Controls.**
- **Financial Reporting.** Document the financial reporting process to accurately reflect all aspects of the end-to-end process, including processes and controls performed to reconcile prior year activity to opening balances.
 - **Funds Management.** Document the funds management process and controls to accurately reflect all aspects of the end-to-end budget to execute process, including processes and controls performed by DLA and service providers.
- B. **Lack of Controls Over Compliance with the TFM USSGL.** Design and implement controls to configure posting logic 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.** Design and implement controls to verify the completeness and accuracy around system generated reports used in the execution of controls to identify, estimate, record and disclose contingent liabilities in the financial statements.



- **Financial Statement Close Process.** Develop and implement controls around the annual close and reconciliation process, which includes a complete, accurate and timely reconciliation of the UTB to the ATB, including sub-allottee balances.
 - **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.
 - **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.
 - **Receipt of Budgetary Funding.** Design and implement controls to perform an adequate reconciliation of the amounts recorded in the general ledger to the Consolidated Appropriations Act and the final report on budget execution and budgetary resources.
- 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 purchase order and sales order level 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 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 the 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 the extent of manual processes; the use of service providers; a complete and accurate population of its assessable units, business processes and relevant controls that are responsive to and mitigate risks, including fraud risks; and an assessment and plan for timely remediation of audit findings.

- B. **Lack of or Inadequate Controls Around System-Generated Reports.** DLA 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 and its sub-allotees) 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.
- D. **Insufficient Oversight and Monitoring of Funding and Transactions Executed by Others.** Review controls were not designed effectively to monitor funding and report transactions executed by sub-allotees. Specifically, DLA did not perform a sufficient review of transactions that were recorded on its financial statements to prevent or detect misstatements.

Recommendations

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

- A. **Lack of or Inadequate Documentation Around the OMB A-123 Program.** Document the end-to-end process to oversee and monitor the enterprise-level risks and controls, including the OMB A-123 program. Perform and document a sufficient risk assessment at the enterprise and business process level to assess and document reporting matters. Document a complete and accurate population of its assessable units and business processes. Identify and assess the risks in each business process and design and implement relevant controls that are responsive to and mitigate these risks, including fraud risks. Perform an assessment of audit findings and establish and execute the plan to remediate the audit findings timely.
- B. **Lack of or Inadequate Controls Around System-Generated Reports.** Design and implement controls to verify the accuracy and completeness around system-generated reports used in the execution of controls. For example, the procedures should include footing system generated reports, performing a tie-out of system generated reports to the general ledger system, verifying that the parameters used to generate the reports or data are appropriate, 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.
- D. **Insufficient Oversight and Monitoring of Funding and Transactions Executed by Others.** Design and implement internal controls to review transactions executed by others, but recorded in DLA's financial statements, are complete and accurate, and are supported by appropriate documentation.

VII. Accounting for Long-Term Production Contracts

Long-term production contracts consist of agreements between DLA and outside vendors to procure goods or services. The contract terms allow the government to make progress payments to the contractor as work is performed, specifically payments upon reaching certain milestones and prior to receiving the finished goods. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that provide reasonable assurance that significant classes of transactions, such as long-term production contracts, are properly recorded and accounted for to permit the preparation of reliable financial statements. However, we identified the following deficiency in internal controls.

- A. **Inadequate Controls Over Long-Term Production Contract.** DLA did not have adequate controls to review payments made to acquire goods under long-term production contracts and assess the underlying business events to determine the proper accounting. Further, DLA was unable to provide documentation that the business events were accounted for in accordance with U.S. GAAP. As a result, transactions were not recorded in accordance with U.S. GAAP.

Recommendations

- A. **Inadequate Controls Over Long-Term Production Contracts.** Design and implement controls to review the payments made under long-term production contracts and assess the underlying business event to determine that the accounting for these transactions is in accordance with U.S. GAAP.

VIII. 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.

The identified access control weaknesses in aggregate represent a significant risk to the DLA financial statements, Information Technology (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:

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



Configuration Management Controls

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

The identified configuration management and change control weaknesses in aggregate represent a significant risk to the DLA 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:

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

Segregation of Duties Controls

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

The identified segregation of duties and conflicting role weaknesses in aggregate represent a significant risk to the DLA 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:

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

Security Management / Governance Over Implementation of Security Controls

An entity-wide information security management and internal control program is the foundation of a security control structure to address security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

The identified security management and governance weaknesses in aggregate represent a significant risk to the DLA 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 assess CUECs, including validation of whether management's internal controls relevant to the CUECs, are designed, implemented, and operating effectively.
- In the absence of an overarching internal control program that complies with OMB Circular A-123, management's internal control procedures did not identify all financially significant risks, establish and implement controls, track known risk exposure, and remediate control gaps.



IT Operations Controls

Effective IT operations controls support the reliability of various aspects of operating the IT environment related to the complete and accurate processing of transactions and the protection of information used in that processing. IT operations 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:

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

Recommendations

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

Access Controls

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

Configuration Management Controls

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



Segregation of Duties Controls

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

Security Management/Governance Over Implementation of Security Controls

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

IT Operations Controls

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



Appendix B – Significant Deficiencies

I. Environmental Liabilities

ELs are comprised of cleanup costs associated with the restoration of sites that DLA manages. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. However, we identified the following deficiency in internal controls, which, when aggregated, we consider to be a significant deficiency.

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

Recommendations

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

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



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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 General Fund of the Defense Logistics Agency (DLA), which comprise the balance sheet as of September 30, 2024, 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 8, 2024 expressed a disclaimer opinion thereon that included a Departure from U.S. Generally Accepted Accounting Principles section regarding DLA not having implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on DLA’s financial statements as of and for the years ended September 30, 2024 and 2023 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. 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 8, 2024, 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.

As referenced in the Fiscal Year (FY) 2024 DLA Statement of Assurance, DLA provides no assurance that the internal controls over operations, financial systems, reporting and compliance are operating effectively in compliance with the Federal Managers' Financial Integrity Act (FMFIA), Section 4; FFMIA of 1996, Section 803; and *Management's Responsibility for Enterprise Risk Management and Internal Control* OMB Circular No. A-123 Appendix D.

FFMIA

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

(a) Federal financial management system requirements

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

(b) Noncompliance with applicable federal accounting standards

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 are 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 2024 Statement of Assurance; 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.

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 8, 2024. 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 8, 2024 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 8, 2024

MANAGEMENT'S RESPONSE TO AUDIT REPORTS



**DEFENSE LOGISTICS AGENCY
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November 8, 2024

**MEMORANDUM FOR THE DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL**

**SUBJECT: Ernst & Young, LLP Fiscal Year (FY) 2024 Financial Statement Audit – Working
Capital Fund (WCF) and General Fund (GF)**

The Defense Logistics Agency (DLA) appreciates the opportunity to provide feedback on Ernst & Young, LLP's (E&Y) Independent Auditor Reports for Fiscal Year (FY) 2024. E&Y's due diligence and comprehensive findings have allowed us the opportunity to strengthen our internal control environment and risk mitigation efforts.

While we acknowledge DLA has more work ahead, we have gained meaningful insight to improve our processes, controls, evidential matter, and Information Provided by Entity (IPE) to meet the scrutiny of the audit. As we move forward in FY 2025, DLA will continue to work diligently toward remediation of critical conditions that are material to our financial statements. Our top priority remains on ensuring that there are well documented policies and procedures, enhanced risk mitigation efforts, and an effective internal control environment.

Thank you, for your thorough examinations, insightful feedback, and consistent communication on the audit requirements for WCF and GF processes and controls during the FY2024 audit. We appreciate your professionalism and transparency throughout the process. It has been our pleasure to partner with you.


SUSAN J. GOODYEAR
Director, DLA Finance
Chief Financial Officer



CARNEY CUISINE

Sailors assigned to the guided missile destroyer USS Carney move supplies during a replenishment with the dry cargo and ammunition ship USNS Medgar Evers in the Mediterranean Sea. Carney is currently conducting routine operations in the U.S. Naval Forces Europe area of operations, employed by the U.S. Sixth Fleet to defend U.S., allied, and partner interests as part of Gerald R. Ford Carrier Strike Group. **Photo by:** Navy Petty Officer 2nd Class Aaron Lau

INTRODUCTION TO THE DLA GF PRINCIPAL FINANCIAL STATEMENTS

The DLA GF 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 GF. The IPA was engaged to perform the audit of DLA GF'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 GF financial statements consist of the following:

The Balance Sheets present those resources owned or managed by DLA GF that represent future economic benefits (assets), amounts owed by DLA GF that will require payments from those resources or future resources (liabilities), and residual amounts retained by DLA GF comprising the difference (net position) as of September 30, 2024 and 2023.

The Statements of Net Cost present the net cost of DLA GF operations for the years ended September 30, 2024 and 2023. DLA GF's net cost of operations is the gross cost incurred by DLA GF activities, less any exchange revenue earned and inter-entity eliminations from DLA GF activities.

The Statements of Changes in Net Position present the change in DLA GF's net position resulting from the net cost of DLA GF's operations, budgetary financing sources, and other financing sources for the years ended September 30, 2024 and 2023.

The Combined Statements of Budgetary Resources present how and in what amounts budgetary resources were made available to DLA GF, the status of these resources, and the net outlays of budgetary resources for the years ended September 30, 2024 and 2023.

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



ASOC TEAM KEEPS EYE ON EVERYDAY OPERATIONS, FUTURE NEEDS

Inside the Agency Synchronization Operations Center at Fort Belvoir, Virginia, Darren Punzalan, desk officer from Defense Logistics Agency Disposition Services and Army Master Sgt. Zachery Brown collaborate to provide a unified view of DLA support around the world. **Photo By:** Chris Lynch

Balance Sheets

As of September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023 Restated
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	\$ 2,147,995	\$ 2,251,314
Accounts Receivable, Net (Note 3)	6,825	14,768
Advances and Prepayments	44	-
Total Intragovernmental Assets	2,154,864	2,266,082
Other than Intragovernmental Assets		
Accounts Receivable, Net (Note 3)	15	29
General Property, Plant and Equipment (Note 4)	444,461	496,650
Advances and Prepayments	28,868	113,922
Other Assets	-	88
Total Other than Intragovernmental Assets	473,344	610,689
TOTAL ASSETS	\$ 2,628,208	\$ 2,876,771
LIABILITIES (Note 5)		
Intragovernmental Liabilities		
Accounts Payable	\$ 21,794	\$ 19,262
Other Liabilities (Note 6 & Note 8)	1,895	1,746
Total Intragovernmental Liabilities	23,689	21,008
Other than Intragovernmental Liabilities		
Accounts Payable	65,934	53,814
Environmental and Disposal Liabilities (Note 7)	103,391	76,446
Federal Employee Salary, Leave, and Benefits Payable (Note 6)	7,521	8,395
Pension and Post-Employment Benefits Payable (Note 6)	2,816	2,738
Advances from Others and Deferred Revenue	27	23
Other Liabilities (Note 8)	4,100	1,839
Total Other than Intragovernmental Liabilities	183,789	143,255
TOTAL LIABILITIES	\$ 207,478	\$ 164,263
Commitments and Contingencies		
NET POSITION		
Unexpended Appropriations-Funds from Other than Dedicated Collections	\$ 2,085,958	\$ 2,296,782
Cumulative Results of Operations-Funds from Other than Dedicated Collections	334,772	415,726
TOTAL NET POSITION	\$ 2,420,730	\$ 2,712,508
TOTAL LIABILITIES AND NET POSITION	\$ 2,628,208	\$ 2,876,771

The accompanying notes are an integral part of these statements.

Statements of Net Cost

As of September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023
Operation and Maintenance		
Gross Cost	\$ 510,491	\$ 437,432
Less: Earned Revenue	(45,780)	(37,992)
Net Cost	464,711	399,440
Procurement Defense-Wide		
Gross Cost	26,918	16,107
Less: Earned Revenue	-	-
Net Cost	26,918	16,107
Research, Development, Test & Evaluation		
Gross Cost	364,565	375,012
Less: Earned Revenue	(38,267)	(38,206)
Net Cost	326,298	336,806
Family Housing and Military Construction		
Gross Cost	78,844	14,649
Less: Earned Revenue	-	-
Net Cost	78,844	14,649
Gross Cost	980,818	843,200
Less: Earned Revenue	(84,047)	(76,198)
NET COST OF OPERATIONS	\$ 896,771	\$ 767,002

The accompanying notes are an integral part of these statements.

Statements of Changes in Net Position

As of September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023 Restated
Unexpended Appropriations		
Beginning Balances	\$ 2,296,782	\$ 2,344,480
Appropriations Received	1,031,117	1,035,743
Appropriations Transferred-in/out	87,615	(12,049)
Other Adjustments	(27,325)	(19,081)
Appropriations Used	(1,302,231)	(1,052,311)
Change in Unexpended Appropriations	(210,824)	(47,698)
Total Unexpended Appropriations: Ending Balance	2,085,958	2,296,782
Cumulative Results of Operations		
Beginning Balances	\$ 415,726	\$ 336,638
Correction of Errors	-	(30,208)
Beginning Balances, as Adjusted	415,726	306,430
Other Adjustments	-	141
Appropriations Used	1,302,231	1,052,311
Transfers-in/out Without Reimbursement	(492,556)	(180,700)
Imputed Financing	6,142	4,546
Net Cost of Operations	896,771	767,002
Net Change in Cumulative Results of Operations	(80,954)	109,296
Cumulative Results of Operations: Ending Balance	334,772	415,726
TOTAL NET POSITION	\$ 2,420,730	\$ 2,712,508

The accompanying notes are an integral part of these statements.

Combined Statements of Budgetary Resources

As of September 30, 2024 and 2023 (dollars in thousands)

	Unaudited FY 2024	Unaudited FY 2023
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net	\$ 623,415	\$ 667,819
Appropriations	1,111,596	1,021,324
Spending Authority from Offsetting Collections	101,181	90,360
TOTAL BUDGETARY RESOURCES	\$ 1,836,192	\$ 1,779,503
STATUS OF BUDGETARY RESOURCES		
Total New Obligations and Upward Adjustments	\$ 1,157,203	\$ 1,198,217
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	608,182	497,218
Unexpired Unobligated Balance, End of Year	608,182	497,218
Expired Unobligated Balance, End of Year	70,807	84,068
Total Unobligated Balance, End of Year	678,989	581,286
TOTAL BUDGETARY RESOURCES	\$ 1,836,192	\$ 1,779,503
OUTLAYS, NET		
Outlays, Net	\$ 1,194,725	\$ 1,160,102
AGENCY OUTLAYS, NET	\$ 1,194,725	\$ 1,160,102

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 Office of the Under Secretary of Defense for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. DLA provides materials and services to components of DoD (including the U.S. Army, Navy, and Air Force, Marine Corps and Space Force), other Federal agencies, and public entities. DLA accomplishes its mission and goals through the operations of the DLA WCF, DLA GF, and DLA NDSTF.

These financial statements and accompanying notes herein only refer to the activities of the reporting entity DLA GF. 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 GF or the other party the ability to exercise significant influence over the other party's policy decisions. DLA GF is unable to identify consolidation entities, disclosure entities, or related parties in accordance with SFFAS 47, *Reporting Entity* (effective FY 2018).

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

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

B. Basis of Presentation and Accounting

The DLA GF fiscal year ends September 30. The accompanying financial statements account for all resources for which DLA GF is responsible. These financial statements present the financial position, results of operations, changes in net position, and the combined budgetary resources of DLA GF, 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 GF activities, in accordance with U.S. GAAP, promulgated by the FASAB¹³, 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 GF 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, without regard to the receipt or payment of cash. 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.

¹³ FASAB is the official body for setting accounting standards of the U.S. government



PATROLLING PIPES

Air Force Senior Airman Fred Stamatatos detaches liquid nitrogen pipes after a transfer at Eglin Air Force Base, Florida. **Photo By:** Samuel King Jr., Air Force

The DLA GF 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 management processes and systems that support the financial statements.

In addition, the financial management systems used by DLA GF 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 GF 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. DLA is assessing financial feeder systems and processes and their conformance to existence, completeness, and accuracy requirements as required by U.S. GAAP and OMB Circular A-136. As DLA GF identifies non-conforming data issues, the Agency will continue to implement interim mitigation processes to address these limitations. In addition, DLA GF 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 Statements of Net Cost: The Statement of Net Cost presents the net cost of operations to provide an overview of DLA GF's financial performance over the fiscal year. The Statement of Net Cost categoriz-

es costs and revenues by appropriations: O&M, RDT&E, PDW, MILCON (includes Family Housing). 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 Statements of Net Cost.)

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

- 1. Budgetary Resources:** Total Budgetary Resources¹⁴ available for the fiscal year, which include unobligated balances of resources from prior years and new budgetary authority. DLA GF new budgetary authority primarily consists of appropriations¹⁵ and spending authority from offsetting collections¹⁶.
- 2. Status of Budgetary Resources:** Reports availability of budgetary resources categorized into obligated¹⁷ and unobligated¹⁸ amounts; and
- 3. Outlays, Net:** Comprised of Outlays¹⁹ less Offsetting Receipts²⁰ (cash transactions).

Intragovernmental and Other than Intragovernmental Transactions: 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 GF. Intragovernmental liabilities are claims DLA GF 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 GF against public entities. Other than Intragovernmental liabilities are amounts that DLA GF owes to public entities. Currently, DLA GF is unable to accurately map its trading partners to separate Intragovernmental and Other than Intragovernmental transactions in accordance with 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 GF engages in transactions with other DoD and Federal entities that generate inter-DoD and intragovernmental balances; however, DLA GF is unable to reconcile and resolve differences between balances and transactions with other DoD and Federal entities in accordance with OMB Circular A-136

14 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."

15 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."

16 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."

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

18 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."

19 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."

20 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."

requirements and TFM, Volume I, Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*. The reconciliation process is not fully implemented.

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

Intra-departmental Transactions: DLA GF is ultimately responsible for the accuracy of its trading partner data and initiating actions to reconcile balances with its trading partners; however, DLA GF is unable to resolve the reconciling differences in amounts reported for the buyer/seller transactions reciprocal category with ODOs. A DoD reporting entity unable to provide detail 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/Intra-departmental and Other than Intragovernmental Transactions).

Inter-fund Transactions: Inter-fund transactions and balances among DLA GF appropriations are eliminated from the Balance Sheets, the Statements of Net Cost, and the Statements of Changes in Net Position. The

Combined Statements of Budgetary Resources are presented on a combined basis in accordance with OMB Circular A-136; therefore, inter-fund transactions have not been eliminated from these statements (refer to Note 1.C., *Departures from U.S. GAAP*, related to Intra-governmental/Intra-departmental and Other than Intra-governmental Transactions).

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 GF management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses and disclosures in the notes. Uncertainties associated with these estimates exist and actual results may differ from these estimates; however, DLA GF's estimates are based on historical experience, current events and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported in the financial statements include: (1) E&DL; (2) accounts payable accrual; (3) undelivered orders; and (4) FECA actuarial liability as of the date of these financial statements.



NEVADA TEST AND TRAINING RANGE (NTTR)

A Disposition Services Disposal Support Representative Steve Rodriguez-Sanchez, Air Force Maj. Chadwick McClure, and NTTR Deputy Chief of Operations Support John Holland discuss range needs at a NTTR used property holding yard. Holland estimates that the NTTR has about 11 years' worth of targetry vehicles and equipment on hand, primarily acquired through the Defense Logistics Agency. **Photo By:** Jake Joy

C. Departures from U.S. GAAP

Financial management systems and operations continue to be evaluated and modified as DLA GF strives to remediate its material weaknesses and record and report its financial activity in accordance with U.S. GAAP. Therefore, DLA GF 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 GF 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.): The DLA GF has not completed analyzing material applicable business relationships with other organizations to identify consolidation entities, disclosure entities, or related parties in accordance with SFFAS 47, *Reporting Entity* (effective FY 2018). As a result, DLA GF is unable to determine if there are consolidation entities that are required to be consolidated and disclosed in DLA GF financial statements or disclosure 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.

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

Intragovernmental/Intra-departmental and Other than Intragovernmental Transactions (Note 1.B.): The DLA GF does not have the proper policies and compliant processes in place to properly report and distinguish between intragovernmental, intra-departmental, and Other than Intragovernmental transactions in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*.

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

Accounts Receivable, Net, Revenue, and Unfilled Customer Orders (Notes 1.F., 1.P. and Note 3): The DLA GF does not have the proper policies and compliant processes in place to: (1) recognize revenue and record the related accounts receivable, net and 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/or SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

General Property, Plant and Equipment, Net (Note 1.G. and Note 4): The DLA GF does not have the proper policies and compliant processes in place to account for general PP&E 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 CIP, 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 GF does not have the proper policies and 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:

Construction-in-Progress Balances: The DLA GF 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*. In addition, DLA GF does not have the proper policies and compliant processes in place to properly monitor and reconcile CIP transactions in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, as a result of a system migration;

Internal Use Software and Internal Use Software in Development: The DLA GF 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* (refer to Note 13, *Restatement*);

Capitalization Thresholds: The DLA GF does not have the proper policies and compliant procedures to implement and consistently apply capitalization thresholds in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*;

Depreciation: The DLA GF 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*; and

Rights and Obligations: The DLA GF is unable to substantiate whether DLA WCF has the rights and obliga-

tions to the recorded general PP&E assets in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*.

Advances and Prepayments (Note 1.I.): The DLA GF does not have the proper policies and compliant processes in place to record advances and prepayments related to contract financing payments in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*.

Leases (Note 1.H.): The DLA GF does not have the proper and compliant processes in place and has not performed an analysis 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*, SFFAS 10, *Accounting for Internal Use Software*, and SFFAS 62, *Transitional Amendment to SFFAS 54*.

Accounts Payable, Expenses, and UDO (Notes 1.K. and 1.Q.; Notes 5; Note 8; and Note 9): The DLA GF does not have the proper policies and compliant processes in place to account for accounts payable, expense accruals, and the related UDOs in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 5, *Accounting for Liabilities of The Federal Government*. More specifically:

Negative Payable: The DLA GF processes allow for payment without receipt, thus resulting in a negative payable. This occurs when a payment is made prior to the goods receipts being posted in DLA GF's accounting system. This results in a misstatement of current year expenses and payables and a corresponding misstatement of UDOs;

Undelivered Orders: The DLA GF 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 GF is unable to support the UDO balance in the accounting system;

Environmental and Disposal Liabilities (Note 1.L. and Note 7): The DLA GF does not have the proper policies and compliant procedures in place to reconcile asset listings for costs related to cleanup, asset closure, and asbestos associated with general PP&E, in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*.

Commitments and Contingencies (Note 1.J.): The DLA GF did not complete its assessment of commitments and contingencies in accordance with SFFAS 5, *Accounting for Liabilities of The Federal Government*, and SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*.

Reconciliation of Net Cost to Net Outlays (Note 10): The DLA GF 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 GF is, also, unable to fully prepare the 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 GF has not completed analyzing all the applicable business relationships to determine if these arrangements or transactions indicate the existence of 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 GF 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

The DLA GF receives allotted funding through the annual appropriations received by the OUSD(C). DoD's annual appropriations are apportioned by OMB. Apportionment is part of the government-wide system for the administrative control of funds. Unless expressly

exempted or automatically apportioned by OMB, all DoD appropriated, collected, and recovered resources require OMB approval through the apportionment/reapportionment process before they are available for distribution and legal obligation by OUSD(C). Following the approval of apportionment/reapportionment requests by OMB, OUSD(C) allocates funds to the Military Services and ODOs. Funds distributed by OUSD(C) may be further subdivided through sub-allocation and sub-allotment to lower levels within the organizations or across organizations for execution. Congress annually appropriates DLA GF amounts to DLA, which also grants authority to the OUSD and its Components to obligate those funds to support mission requirements. In FY 2024 and FY 2023, DLA GF received four appropriations, which include O&M, RDT&E, PDW, and MILCON.

The DLA GF receives its budgetary resources through sub-allotments from OUSD(C). These sub-allotments received by the DLA GF annually are reported in the Statements of Budgetary Resources and included in the appropriations line as part of DLA GF's budgetary resources. These budgetary resources provide the funding necessary to incur obligations, pay for goods and services, and are available for obligations based on the period of availability as described below. Any budgetary resources remaining at the end of the period of availability are held in 'an expired status' for five years. Existing obligated balances can be used to make payments, but unobligated balances are not available for new obligations. Budgetary resources, including any related obligations and payables, are cancelled at the end of the five-year expiration period.

O&M appropriation (funds available 1 year): funds Administration and Service-Wide Activities such as DoD programs, DoD EBS, DLA HQ programs, and Environmental Programs. These programs are associated with DLA logistics mission as well as programs assigned to DLA GF from DoD for budget administration purposes. DLA GF functions as either the executive agent responsible for program oversight and policy guidance or the budget administrator responsible for administrative support for these programs.

Procurement Defense-Wide appropriation (funds available 3 years): funds mission essential equipment, including automated data processing, telecommunications equipment, and passenger carrying vehicles that afford a high degree of efficiency, effectiveness, and productivity in the accomplishment of DLA GF's logistics mission.

RDT&E appropriation (funds available 2 years): funds the development of major upgrades to increase the performance of existing systems, the purchase of test articles, and the developmental testing and/or initial operational testing and evaluation prior to system acceptance. In addition, the RDT&E appropriation develops, manages, and implements innovative microelectronic solutions to enhance DoD mission capabilities. These capabilities are leveraged to develop low-volume, high mix fabrication processes for state-of-the-art technologies that meet DoD's performance and reliability needs for legacy microelectronics that are unavailable from commercial foundries. RDT&E also helps ensure that advanced logistics concepts and business processes are used to accomplish the Agency's mission. The Logistics R&D program identifies the best commercial business practices and tailors them, as necessary, into the most effective business processes for DLA. The ManTech R&D program provides the critical link between invention and application. DLA sub-allots RDT&E authority to the DMEA.

Family Housing and Military Construction

Family Housing O&M appropriation (funds available 1 year): funds the routine O&M of 24 Military Family Housing (MFH) units. Routine operation and maintenance include management costs, utility costs and cyclical maintenance such as painting and renovations. Allocated funding for Family Housing ended in FY 2019, all remaining obligated and unobligated balances will be cancelled by FY 2025.

MILCON appropriation (funds available 5 years): funds the construction of facilities that support DLA's mission. These include DoD fuel infrastructure projects, and distribution and disposition facilities. DLA GF sub-allots MILCON authority to various entities such as USACE

and NAVFAC, which are DLA's primary design and construction agents for the MILCON program.

E. Fund Balance with Treasury

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

In recent years, DLA GF implemented U.S. TDD, which provides DLA GF the capability to transmit directly from the accounting system to Treasury for disbursements. With the implementation of TDD, DLA GF has a unique accounting code, which allows DLA GF to properly identify the transactions.

On a monthly basis, DLA GF adjusts the FBwT account balance to bring the cash balance to be in agreement with the U.S. Treasury cash balance reported on the Central Accounting and Reporting System (CARS) using the 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 U.S. Treasury but have not yet been posted to DLA GF's accounting system. Undistributed amounts can be a result of timing, invalid line of accounting, invalid TAS information, and unsupported and unreconciled differences.

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

transactions are derived from the DFAS Suspense Account UoT.

U.S. Treasury also compares DoD's FBWT reported by DFAS with comparable data submitted by financial institutions and Treasury Regional Financial Centers and notifies DoD of differences in collection and disbursement data on the SOD report. DFAS reviews the SOD report to research and resolve differences. The current balances for DLA GF 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 GF by other Federal agencies (intragovernmental) and the public (other than intragovernmental). DLA GF's accounts receivable arise from sales of materials and services.

The DLA GF presents its intragovernmental accounts receivable net of an allowance for doubtful accounts,

which is based on a systematic methodology of grouped aged Federal accounts receivables. DLA GF evaluates the allowance methodology and estimates allowance percentages quarterly based on historical average collections on aged Federal accounts receivables. The allowance for doubtful accounts is calculated based on the aged accounts receivable balances from the preceding month.

The DLA GF does not currently have significant other than intragovernmental receivables or corresponding allowance for doubtful accounts.

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

G. General Property, Plant and Equipment, Net

The DLA GF PP&E primarily consists of Real Property CIP, IUS and IUS under development. These PP&E categories are not subject to amortization or depreciation. DLA GF PP&E also consists of IUS and General Equipment.



FUELED UP

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

The DLA GF transfers the amounts in the CIP account to the DLA WCF upon project completion. DLA WCF will place assets in the appropriate PP&E account and transfer the asset to the military services. Due to identified deficiencies in policies and procedures related to CIP, DLA GF is not able to reconcile the recorded CIP balances.

Capitalization Threshold: The DLA GF general PP&E assets are recorded at historical acquisition cost plus improvements when (1) an asset has a useful life of two or more years and (2) the acquisition cost exceeds the \$250,000 capitalization threshold.

The DLA GF 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.*”

The DLA GF has not yet finalized the valuation process for PP&E. Accordingly, DLA GF has not made an unreserved assertion that the opening balances of PP&E for FY 2024 are presented fairly in accordance with SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment.*

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net, and Note 4, *General Property, Plant and Equipment*, and Note 11, *Restatements*)

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

H. Leases

For FY 2024, DLA WCF does not have policies and compliant processes in place to identify, evaluate, record, and report leases in accordance with SFFAS 54, *Leases*, SF-FAS 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*.

For FY 2023, DLA WCF did not have policies and compliant processes in place to identify, evaluate, record, and report capital and operating leases in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*.

I. Advances and Prepayments

Advances represent cash outlays to cover a part or all of the recipients’ anticipated expenses or as advance payments for the cost of goods and services the entity

acquires. Prepayments represent payments made by a federal entity to cover certain periodic expenses before those expenses are incurred.

The DLA GF conducts business with 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 GF provides the following contract financing payments: commercial financing payments, progress payments, and performance-based payments. The Federal Acquisition Regulation, Part 32, defines contract financing payments as “authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government”. Advances are reduced when goods or services are received, contract terms are met, or progress is made under a contract.

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

J. Commitments and Contingencies

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

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

Environmental Contingencies: The DLA GF has developed a process to identify, estimate, and record contingent E&DL. DLA GF does not estimate a potential range of loss in this process. Where DLA GF 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 7, *Environmental and Disposal Liabilities*.

Legal Contingencies: DLA uses the EWSC to report the outcomes and possible liability amounts of open legal cases managed by the Office of General Counsel.

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

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

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

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

As no environmental contingencies, legal contingencies, or commitments have been identified for reporting as of September 30, 2024, a separate Commitments and Contingencies note is not presented in this report.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Commitments and Contingencies; Note 1.P., *Imputed Financing and Imputed Cost*, and Note 7, *Environmental and Disposal Liabilities*)

K. Liabilities

Liabilities covered by budgetary resources include liabilities incurred that are covered by realized budgetary resources as of the Balance Sheet date. Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts and other inflows (refer to Note 5, *Liabilities Not Covered by Budgetary Resources*).

Liabilities Covered and Not Covered by Budgetary Resources:

Liabilities covered by budgetary resources include those liabilities for which Congress appropriated funds and are otherwise available to pay amounts due as of the Balance Sheet dates. Liabilities Not Covered by Budgetary Resources are liabilities that will require budgetary resources and are amounts owed in excess of available, congressionally appropriated funds. Therefore, no budgetary resources are available to pay amounts due as of the Balance Sheet dates but will require future funding to liquidate the obligation

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

Current and Noncurrent Liabilities: The DLA GF discloses its other liabilities between current and noncurrent liabilities in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. Current liabilities represent liabilities that DLA GF expects to be paid within a year of the Balance Sheet dates. Noncurrent liabilities represent liabilities that DLA GF does not expect to be paid within a year of the Balance Sheet dates (refer to Note 8, *Other Liabilities*).

Accounts Payable: Accounts Payable includes amounts owed but not yet paid to Intragovernmental and Other than Intragovernmental entities for goods and services received by DLA GF. DLA GF estimates and records accruals when services and goods are performed or received (i.e., MOCAS accrual) related to contract financing and Negative Payable Accrual to adjust the timing issues that exist within EBS when an invoice is received and posted without a goods receipt. DLA GF also accrues liabilities incurred at month-end but not yet recorded using data from Third Party Payment Systems, GPC, various feeder systems, and estimates of costs incurred when goods or services received but not invoiced. For Accounts Payable associated with cancelling appropriations, the cancelled payable is re-established after funding expired and are no longer available to liquidate obligations. The payments for the cancelled payable will be disbursed using current available funding (refer to Note 5, *Liabilities Not Covered by Budgetary Resources*).

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

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

L. Environmental and Disposal Liabilities

E&DL are a probable and reasonably estimable future outflow or expenditure of resources that exists as of

the financial reporting date for environmental cleanup costs resulting from past transactions or events.

The DLA GF is responsible for accurate reporting of the E&DL and expense for the real property and/or equipment that it records and reports in its financial statements as assets, regardless of ownership by any Federal agency. DLA GF identifies and estimates accrued E&DL through its annual CTC process. DLA GF 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 appropriated funds 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. Due to noted deficiencies, DLA GF is not able to reconcile the population of real property assets that encompass the environmental sites closure and asbestos liabilities.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Commitments and Contingencies, and Note 7, *Environmental and Disposal Liabilities*.)

M. Federal Employee Benefits Payable

Payroll and Annual Leave Accruals: Accrued payroll consists of salaries, wages, and other compensation earned by employees, but not yet disbursed as of the Balance Sheet dates. DLA GF 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, *Other Liabilities*).

FECA: The 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 DOL, which pays

valid claims and subsequently seeks reimbursement from DLA GF 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 GF. DLA GF 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 GF. As a result, DLA GF recognizes an intra-governmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by DLA GF (refer to Note 5, *Liabilities Not Covered by Budgetary Resources*, and Note 6, *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 a liability Other than Intragovernmental, 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: (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 5, *Liabilities Not Covered by Budgetary Resources*, and Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*).

N. Pension Benefits

Based on the effective Federal government start date, the DLA GF's civilian employees participate in either the CSRS, a defined benefit plan, or the 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 OPM administers these benefits and provides the factors that DLA GF applies to calculate and recognize imputed costs, as reported in its Statements of Net Cost, and a corresponding imputed revenue in the Statements of Changes in Net Position. DLA GF 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.P., *Imputed Financing and Imputed Cost*.)

O. 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 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 GF unexpended appropriations primarily consist of direct appropriations.

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

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Revenue, and Unfilled Customer Orders and Accounts Payable, Expenses, and Undelivered Orders, Note 9, *Statement of Budgetary Resources*; and Note 11, *Restatement*.)

P. Revenue and Other Financing Sources

Exchange and Non-exchange Revenue: The DLA GF classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises when DLA GF provides goods or services to intragovernmental or Other than Intragovernmental entities in

exchange for inflows of resources. Exchange revenue is presented in the Statements of Net Cost and serves to offset the costs of these goods and services. Exchange revenue from services in the O&M appropriation include support for Continuity of Operations; Law Enforcement Support Office; Morale, Welfare and Recreation; and Defense Travel System Support. Exchange revenue from services in the RDT&E appropriation include support for the Next Generation Resource Management System; Mapping EBS; and Defense Information System Security.

Non-exchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Non-exchange revenue is considered to impact the cost of DLA GF's operations and is reported in the Statements of Changes in Net Position as a financing source.

Other Financing Sources: Other financing sources, other than exchange and non-exchange revenue, include additional inflows of resources that increase results of operations during the reporting period. DLA GF's other financing sources come from unexpended appropriation transfers and non-expenditure transfers-in initiated by OUSD and 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 should be the estimated fair value at the date of transfer. DLA GF purchases inventory held-for-sale to support the PDW program. Per DoD Financial Management Regulations (FMR) 7000.14-R Volume 4, Chapter 4, *Inventory and Related Property*, DLA GF is not authorized to retain inventory. As a result, DLA GF transfers the inventory held-for-sale to DLA WCF.

Imputed Financing and Imputed Cost: In certain cases, DLA GF 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 GF are recognized as imputed cost in the Statements of Net Cost and are offset by imputed financing in the Statements of Changes in Net Position. DLA GF recognizes the following imputed cost and related imputed financing in accordance with SFFAS 55, *Amending Inter-Entity Costs Provisions*: (1) employee benefits administered by the OPM (i.e., retirement, health, life insurance benefits); and (2) claims settled by the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in DLA GF financial statements.

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

Q. Expenses

Expenses are recognized when there are outflows, usage of assets, or incurrences of liabilities (or a combination) from carrying out activities related to DLA GF appropriations and missions, 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, and Note 11, *Restatement*).

R. Reclassifications

The FY 2023 Balance Sheet was reclassified to conform to the FY 2024 financial statement presentation requirements in accordance with OMB Circular A-136, as amended, and included changes in the presentation to: Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*; Note 8, *Other Liabilities*; and Note 10, *Reconciliation of Net Cost to Net Outlays*. The reclassifications had no effect on total assets, liabilities, or net position.

Note 2: Fund Balance with Treasury (Unaudited)

Fund Balance with Treasury as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	\$ 608,182	\$ 497,218
Unavailable	70,807	84,068
Obligated Balance not yet Disbursed	1,469,006	1,670,028
Total Fund Balance with Treasury	\$ 2,147,995	\$ 2,251,314

Status of Fund Balance with Treasury presents the budgetary and proprietary balances that constitute DLA GF FBwT. It consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations. Unobligated and obligated balances differ from the related amounts reported in the Combined Statements of Budgetary Resources because budgetary balances are supported by amounts other than FBwT (e.g., budgetary receivables).

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

Unobligated Balance – Unavailable includes the cumulative amount of budget authority and funds not

available for obligation from offsetting collections.

Obligated Balance Not Yet Disbursed includes funds that have been obligated for goods and services not received, as well as 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, 2024 and 2023, DLA GF does not have balances for non-budgetary FBwT.

Other Information includes the following tables summarizing the undistributed collections and disbursements between U.S. Treasury and DLA GF as of September 30, 2024 and 2023, respectively.

FY 2024 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)			
Transaction Type	Treasury Balance based on CMR	DLA GF Trial Balance	Balances Not Yet Recorded in DLA Accounting System - Undistributed
Collections	\$ 454,306	\$ 454,303	\$ 3
Disbursements	\$ 5,275,817	\$ 4,883,611	\$ 392,206

FY 2023 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)			
Transaction Type	Treasury Balance based on CMR	DLA GF Trial Balance	Balances Not Yet Recorded in DLA Accounting System - Undistributed
Collections	\$ 417,865	\$ 422,987	\$ (5,122)
Disbursements	\$ 4,800,116	\$ 4,386,808	\$ 413,308

(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, 2024 and 2023, respectively, consist of the following (dollars in thousands):

FY 2024			
	Accounts Receivable	(Less: Allowance for Doubtful Accounts)	Accounts Receivable, Net
Intragovernmental Accounts Receivable, Net			
Operations and Maintenance	\$ 4,898	\$ -	\$ 4,898
Research, Development, Test & Evaluation	1,927	-	1,927
Total Intragovernmental Accounts Receivable, Net	\$ 6,825	\$ -	\$ 6,825
Other than Intragovernmental Accounts Receivable			
Operations and Maintenance	14	-	14
Research, Development, Test & Evaluation	1	-	1
Total Other than Intragovernmental Accounts Receivable	15	-	15
Total Accounts Receivable	\$ 6,840	\$ -	\$ 6,840

FY 2023			
	Accounts Receivable	(Less: Allowance for Doubtful Accounts)	Accounts Receivable, Net
Intragovernmental Accounts Receivable, Net			
Operations and Maintenance	\$ 6,610	\$ -	\$ 6,610
Research, Development, Test & Evaluation	8,158	-	8,158
Total Intragovernmental Accounts Receivable, Net	\$ 14,768	-	\$ 14,768
Other than Intragovernmental Accounts Receivable			
Operations and Maintenance	29	-	29
Research, Development, Test & Evaluation	-	-	-
Total Other than Intragovernmental Accounts Receivable	29	-	29
Total Accounts Receivable	\$ 14,797	-	\$ 14,797

As of September 2024 and 2023, DLA GF reported \$0, in intragovernmental allowance for doubtful accounts.

(Refer to Note 1.C., *Departures from U.S. GAAP*, re-

lated to Accounts Receivable, Revenue, and Unfilled Customer Orders.)

Note 4: General Property, Plant and Equipment, Net (Unaudited)

General Property, Plant and Equipment, Net as of September 30, 2024 and September 30, 2023, respectively, consist of the following (dollars in thousands):

FY 2024			
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Major Asset Classes			
General Equipment	\$ 1,765	\$ (401)	\$ 1,364
Construction-in-Progress	434,995	-	434,995
Internal-Use Software	11,079	(2,977)	8,102
Internal-Use Software in Development	-	-	-
Total General Property, Plant and Equipment, Net	\$ 447,839	\$ (3,378)	\$ 444,461

FY 2023 Restated			
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Major Asset Classes			
General Equipment	\$ 435	\$ (174)	\$ 261
Construction-in-Progress	488,457	-	488,457
Internal-Use Software	8,647	(721)	7,926
Internal-Use Software in Development	6	-	6
Total General Property, Plant and Equipment, Net	\$ 497,545	\$ (895)	\$ 496,650

The DLA GF maintains CIP, IUS, IUS in Development, and General Equipment. The CIP mainly consists of projects from USACE and NAVFAC. The accumulated CIP balances will be transferred to the military service that is the Installation Host having jurisdiction of the real property asset upon completion of the project and removed from DLA GF accounting records. As of September 30, 2024, DLA GF continues to review the CIP balance reported by the construction agents to DFAS and adjustments are made as applicable by DLA GF and DFAS.

The Internal-Use Software mainly consists of DAI Oracle Software Perpetual Licenses. The Internal-Use Software in Development mainly consists of projects related to DAI systems.

General Equipment consists of equipment managed by DMEA.

The table below discloses activity for General Property, Plant and Equipment, Net as of September 30, 2024 and 2023, respectively (dollars in thousands):

Continued on next page ►

	FY 2024	FY 2023 Restated
General Property, Plant and Equipment - Beginning Balances	\$ 496,650	\$ 392,251
Correction of Errors	-	(30,208)
Beginning Balances, As Adjusted	\$ 496,650	\$ 362,043
Capitalized Acquisitions	122,887	200,127
Depreciation Expense	(2,483)	(846)
Dispositions	-	(385)
Transfers in/out without reimbursements	(172,593)	(64,289)
General Property, Plant and Equipment - Ending Balances	\$ 444,461	\$ 496,650

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

Note 5: Liabilities Not Covered by Budgetary Resources (Unaudited)

Liabilities Not Covered by Budgetary Resources as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023 Restated
Intragovernmental Liabilities		
Other Current Liabilities - Benefits Program Contributions Payable	\$ 1,506	\$ 1,324
Total Intragovernmental Liabilities	1,506	1,324
Other than Intragovernmental Liabilities		
Accounts Payable	8,500	7,324
Environmental and Disposal Liabilities	92,887	67,924
Federal employee salary, leave, and benefits payable	5,784	5,808
Pension and other Post-employment Benefits Payable	2,816	2,738
Total Other than Intragovernmental Liabilities	109,987	83,794
Total Liabilities Not Covered by Budgetary Resources	111,493	85,118
Total Liabilities Covered by Budgetary Resources	95,985	79,145
Total Liabilities	\$ 207,478	\$ 164,263

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Other Liabilities – Benefits Program Contributions Payable (Intragovernmental) primarily consist of intragovernmental liabilities for unemployment compensation and the accrued FECA liability based on DOL records.

Accounts Payable (Other than Intragovernmental) include amounts owed but not yet paid to the public for goods and services received by DLA GF. It is classified as Liabilities Not Covered by Budgetary Resources because the revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of DLA.

Environmental and Disposal Liabilities (Other than Intragovernmental) consist of probable and reasonably estimable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. As of September 30, 2024 and 2023, the

total liabilities covered by budgetary resources for the E&DL consists of \$10.5 million and \$8.5 million, respectively.

Federal Employee Salary, Leave, and Benefits Payable (Other than Intragovernmental) is primarily comprised of the unfunded annual leave earned by civilian employees but not yet paid. Unfunded annual leave includes restored leave, compensatory time, and credit hours as earned.

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

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders; Note 6, *Federal Employee Benefits Payable and Related Other Liabilities*; and Note 7, *Environmental and Disposal Liabilities*.)



NATIVE FURY '24

U.S. Marines conduct for a long-range convoy during exercise Native Fury 24 at a Logistics Support Area established in the Kingdom of Saudi Arabia, May 8, 2024. **Photo By:** USMC Cpl. Alfonso Livrieri

Note 6: Federal Employee Benefits Payable and Related Other Liabilities (Unaudited)

Federal Employment Benefits Payable and Related Other Liabilities as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

FY 2024			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contribution and Payroll Taxes Payable	\$ 392	\$ (392)	\$ -
Unfunded FECA Liability	297	-	297
Other Unfunded Employment Related Liability	1,209	-	1,209
Total Intragovernmental Other Liabilities	\$ 1,898	\$ (392)	\$ 1,506
Other than Intragovernmental Federal Employee Benefits Payable			
Accrued Unfunded Annual Leave	5,784	-	5,784
Employer Contributions and Payroll Taxes Payable	402	(402)	-
Accrued Funded Payroll & Leave	1,335	(1,335)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	\$ 7,521	\$ (1,737)	\$ 5,784
Pensions and Other Post-Employment Benefits Payable			
Actuarial FECA Liability	\$ 2,816	-	2,816
Total Pensions and Other Post-Employment Benefits Payable	\$ 2,816	\$ -	\$ 2,816



SMALL SHELTER

Members of the Contingency Overseas Readiness Exercise team construct an Alaska Small Shelter at their exercise site. During an actual deployment the tent would serve as living quarters for the team. For the exercise on Guam the shelter was erected to demonstrate the team's ability to deploy the Expeditionary Site Set. **Photo By:** Jeff Landenberger

FY 2023

	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contribution and Payroll Taxes Payable	\$ 422	\$ (422)	\$ -
Unfunded FECA Liability	288	-	288
Other Unfunded Employment Related Liability	1,036	-	1,036
Total Intragovernmental Other Liabilities	\$ 1,746	\$ (422)	\$ 1,324
Other than Intragovernmental Federal Employee Benefits Payable			
Accrued Unfunded Annual Leave	\$ 5,808	\$ -	\$ 5,808
Employer Contributions and Payroll Taxes Payable	609	(609)	-
Accrued Funded Payroll & Leave	1,978	(1,978)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	\$ 8,395	\$ (2,587)	\$ 5,808
Pensions and Other Post-Employment Benefits Payable			
Actuarial FECA Liability	\$ 2,738	-	\$ 2,738
Total Pensions and Other Post-Employment Benefits Payable	\$ 2,738	\$ -	\$ 2,738

Employer Contributions and Payroll Taxes Payable (Intragovernmental) 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) include the accrued FECA liability paid by DOL but not yet reimbursed by DLA GF.

Other Unfunded Employment Related Liability (Intragovernmental) consist 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 GF 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. COLAs and medical inflation factors are also applied to the calculation of projected future benefits.

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

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

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

Note 7: Environmental and Disposal Liabilities (Unaudited)

Environmental and Disposal Liabilities as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Environmental and Disposal Liabilities:		
Accrued Environmental Restoration Liabilities:		
Active Installations—Installation Restoration Program and Building Demolition and Debris Removal	\$ 103,391	\$ 76,466
Total Environmental and Disposal Liabilities:	\$ 103,391	\$ 76,446

The DLA GF E&DL are comprised of two primary elements: (1) existing obligations supporting the Defense Environmental Restoration Account (DERA) and BRAC funded environmental restoration programs, and (2) the CTC which includes anticipated future cost necessary to complete environmental restoration sites. While DLA GF is responsible for recording BRAC Installations – Installation Restoration Program (IRP) E&DL, associated costs are reported on the DoD Component Level Statements under Consolidated ODO GF.

In FY 2024 and FY 2023, DLA GF utilized the RACER software to generate the CTC estimates of anticipated future costs.

As of as of September 30, 2024 and 2023, the total GF E&DL consist of \$103.4 million and \$76.5 million, respectively.

In FY 2024 cost estimates under the Defense Environmental Restoration Program (DERP) were generated for sites with Accrued Environmental Restoration Liabilities Active Installations – IRP E&DL and BRAC Installations – IRP E&DL. While DLA GF is responsible for recording BRAC Installations –IRP E&DL, associated costs are reported on the DoD Component Level Statements under Consolidated ODO GF.

Types of Environmental and Disposal Liabilities:

The DLA GF is responsible for cleanup requirements of DERP eligible sites managed under Active IRP and BRAC IRP. Costs under the Accrued Environmental Restoration Liabilities and BRAC Installations line items represent the cost to correct past environmental problems that are funded from the Environmental Restoration and BRAC Accounts in accordance with the DoD Manual (DoDM) 4715.20 – *DERP Management* (March 2012) and the DoD 7000.14-R Financial Management Regulation (FMR) Volume 4, Chapter 13 – *Environmental and Disposal Liabilities* (June 2024). All clean-up is conducted in coordination with regulatory agencies, other responsible parties, and current property owners.

The DLA GF reportable E&DL is under Accrued Environmental Restoration Liabilities and BRAC Installations and includes the following line items:

Accrued Environmental Restoration Liabilities:

Includes Active Installations – IRP E&DL associated with remedial actions eligible for funding under the DERP. These remedial actions may address hazardous substances, pollutants, and contaminants as defined in the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); hazardous waste or hazardous constituents addressed under the RCRA corrective action process or other Federal or state statutes and regulations; and military munitions or Waste Military Munitions, chemical residues from military mu-

nitions, and munitions scrap at locations other than operational ranges associated with an active installation, when the environmental restoration activity is incidental to the IRP environmental restoration activity.

BRAC Installations: Includes IRP E&DL associated with the costs to address environmental cleanup at bases that are realigning or closing resulting from past activities which are part of DERP. While DLA GF is responsible for recording BRAC Installations – IRP E&DL, it is reported in the DoD Component Level Statements under Consolidated ODO GFs.

The DLA assessed its PP&E inventory and does not currently have reportable GF E&DL for Environmental Closure, Asbestos, or General Equipment. There are no other reportable E&DL categories as listed on the DoD FMR Volume 6B, Chapter 10 – *Notes to the Financial Statements, Chapter 10, Paragraph 17 Environmental and Disposal Liabilities* (February 2023).

Applicable Laws and Regulations for Cleanup Requirements: The DLA GF 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 GF is required to comply with the following laws and regulations where applicable: CERCLA; the Superfund Amendments and Reauthorization Act; RCRA; and other applicable Federal, State, and local laws and regulations. Required cleanup may at times extend beyond Installation boundaries onto privately owned property or onto sites where DLA GF is named as a potentially responsible party by a regulatory agency. DLA GF reports E&DL in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and Federal Financial Accounting Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods: To estimate future environmental costs, DLA GF utilizes a combination of historical or pre-negotiated contract costs, proposal costs, engineering estimates, and in the absence of other detailed information, parametric estimates cre-

ated using the RACER software. Any historical costs used in the creation of the estimates for DLA E&DL are adjusted for inflation and reported in current year dollars. The RACER Steering Committee ensures that the RACER software is VV&A in accordance with DoD Instruction 5000.61 DoD 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. Detailed information on estimating methodologies is provided in the DLA ELM SOPs.

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

The DLA E&DL Site 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. The DLA GF E&DL estimates are created annually for all projected requirements and are finalized and approved by July. The estimates are then reevaluated through a roll forward review to identify any material changes to previously approved estimates to ensure accuracy as of the financial reporting date of September 30. Processes are conducted in accordance with DLA ELM SOPs; DoDM 4715.20 – *DERP Management* (March 2012) and the DoD 7000.14-R FMR Volume 4, Chapter 13 – *Environmental and Disposal Liabilities* (June 2024).

CTC estimates revised through roll forward, as applicable, and prior year obligations are reported in the balance as of September 30. As of the reporting date, no material changes in the total estimated cleanup costs were identified through the roll forward review due to changes in laws, technology, or plans. In addition, DLA is not aware of any changes to GF E&DL estimates that would result from inflation, deflation, technology, plans, and or pending changes to applicable laws and regulation. The cost estimate changes from prior periods are primarily driven by remediation activities and operations, as evidenced by UDOs; there are minor adjustments for inflation or other similar administrative costs throughout the fiscal year. E&DL estimates will be reevaluated each year and may change in the future

due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental and Disposal Liabilities: The stated total DLA GF E&DL includes prior year obligations and the estimate of future costs necessary to complete requirements. DLA GF has instituted extensive controls to ensure that these estimates are accurate and reproducible. The cost estimates produced through the E&DL 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 cost may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree

than anticipated when calculating the estimates. DLA GF 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 are tracked and will be re-evaluated in the following fiscal year to determine if any changes have taken place and sufficient information, or data is available to create an estimate of future costs that would be included in the GF E&DL balance.

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



SMOKY SCENE

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

Note 8: Other Liabilities (Unaudited)

Other Liabilities as of September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

FY 2024			
	Current	Non-Current	Total
Intragovernmental Other Liabilities			
Advances from Others and Deferred Revenue	(3)	-	(3)
Total Intragovernmental Other Liabilities	\$ (3)	\$ -	\$ (3)
Total Other than Intragovernmental Other Liabilities			
Contract Holdbacks	4,100	-	4,100
Total Other than Intragovernmental Other Liabilities	\$ 4,100	\$ -	\$ 4,100

FY 2023			
	Current	Non-Current	Total
Intragovernmental Other Liabilities			
Advances from Others and Deferred Revenue	-	-	-
Total Intragovernmental Other Liabilities	\$ -	\$ -	\$ -
Total Other than Intragovernmental Other Liabilities			
Contract Holdbacks	1,839	-	1,839
Total Other than Intragovernmental Other Liabilities	\$ 1,839	\$ -	\$ 1,839

Advances from Others and Deferred Revenue are amounts received for goods or services to be delivered or performed in the future and reflect amounts that have yet to be earned.

Contract Holdbacks (Other than Intragovernmental) are amounts earned by contractors or suppliers during

the production period but not yet paid to the contractor/supplier to ensure future performance.

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

Note 9: 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 bal-

ances and unobligated balances transferred from other accounts. The following table displays a reconciliation between the prior year’s unobligated balance, end of year amount to the current year’s unobligated balance from prior year budget authority, net amount (dollars in thousands).

	FY 2024	FY 2023
Reconciliation of PY Ending Unobligated Balances of CY Beginning Unobligated Balances		
Unobligated balance brought forward, October 1	\$ 581,286	\$ 610,519
Unobligated balance transferred to other accounts (-)	-	(160)
Unobligated balance transferred from other accounts	23,160	2,450
Unobligated balance transferred between expired and unexpired accounts (+ or -)	(16,438)	80
Recoveries of prior year unpaid obligations	61,860	73,442
Other balances withdrawn (-)	(26,911)	(18,940)
Recoveries of prior year paid obligations	458	428
Unobligated Balance, Total	\$ 623,415	\$ 667,819

Undelivered Orders (UDOs): For the years ended September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

	FY 2024	FY 2023
Intragovernmental Undelivered Orders		
Unpaid	\$ 405,396	\$ 482,830
Paid	44	-
Total Intragovernmental Undelivered Orders	405,440	482,830
Other than Intragovernmental Undelivered Orders		
Unpaid	1,055,304	1,184,561
Paid	28,868	113,922
Total Other than Intragovernmental Undelivered Orders	1,084,172	1,298,483
Total Undelivered Orders	\$ 1,489,612	\$ 1,781,313

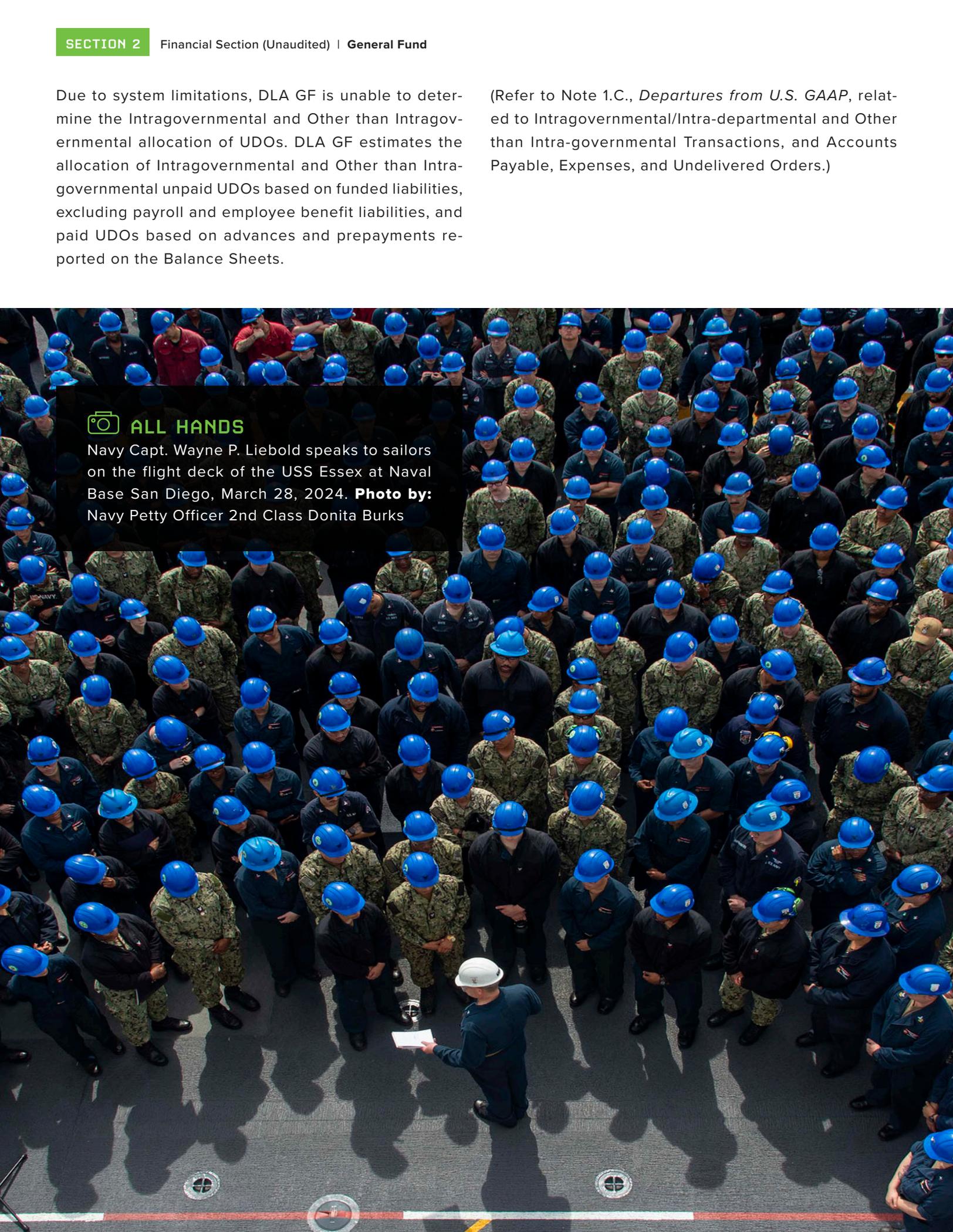
UDOs represent the amount of goods and/or services ordered to perform DLA GF’s mission objectives that have not been received. Unpaid UDOs represent obligations for goods and services that have not been received or paid. Whereas paid UDOs represent obli-

gations for goods and services that have been paid for in advance of receipt. For the year ended September 30, 2024, and year ended September 30, 2023, DLA GF reported \$44.0 thousand and \$0, respectively, in intragovernmental paid UDO balances.

Continued on next page ▶

Due to system limitations, DLA GF is unable to determine the Intragovernmental and Other than Intragovernmental allocation of UDOs. DLA GF 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 Sheets.

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



ALL HANDS

Navy Capt. Wayne P. Liebold speaks to sailors on the flight deck of the USS Essex at Naval Base San Diego, March 28, 2024. **Photo by:** Navy Petty Officer 2nd Class Donita Burks

Note 10: Reconciliation of Net Cost to Net Outlays (Unaudited)

Reconciliation of Net Cost to Net Outlays for the years ended September 30, 2024 and 2023, respectively, consist of the following (dollars in thousands):

FY 2024			
	Intragovernmental	Other than Intragovernmental	Total
NET COST	\$ 151,366	\$ 745,405	\$ 896,771
Components of Net Cost That are Not Part of Net Outlays			
General Property, Plant, and Equipment Depreciation		(2,483)	(2,483)
General Property, Plant, and Equipment Disposals & Revaluations	-	-	-
Cost Capitalization Offset	-	118,335	118,335
Increase/(Decrease) in Assets			
Accounts Receivable, Net	(7,943)	(14)	(7,957)
Advances and Prepayments	44	(85,054)	(85,010)
Other Assets	-	(88)	(88)
(Increase)/Decrease in Liabilities			
Accounts Payable	(2,532)	(12,120)	(14,652)
Environmental and Disposal Liabilities	-	(26,945)	(26,945)
Federal Employee Salary, Leave, and Benefits Payable	-	874	874
Pensions and Other Post-Employment Benefits Payable	-	(78)	(78)
Advances from Others and Deferred Revenue	3	(4)	(1)
Other Liabilities	(152)	(2,261)	(2,413)
Financing Sources			
Imputed Financing	(6,142)	-	(6,142)
Total Components of Net Cost That are Not Part of Net Outlays	(16,722)	(9,838)	(26,560)
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of Capital Assets	-	4,552	4,552
Acquisition of Inventory	-	319,962	319,962
Total Components of Net Outlays That are Not Part of Net Cost	-	324,514	324,514
NET OUTLAYS	\$ 134,644	\$ 1,060,081	1,194,725
Outlays, Net, Statements of Budgetary Resources			1,194,725
Reconciling Difference			\$ -

FY 2023 Restated

	Intragovernmental	Other than Intragovernmental	Total
NET COST	\$ 165,896	\$ 601,106	\$ 767,002
Components of Net Cost That are Not Part of Net Outlays			
General Property, Plant, and Equipment Depreciation Expense	-	(846)	(846)
General Property, Plant and Equipment Disposals & Revaluations	-	(385)	(385)
Cost Capitalization Offset	-	199,351	199,351
Increase/(Decrease) in Assets			
Accounts Receivable, Net	989	14	1,003
Advances and Prepayments	-	106,181	106,181
Other Assets	-	-	-
(Increase)/Decrease in Liabilities			
Accounts Payable	2,156	2,854	5,010
Environmental and Disposal Liabilities	-	1,900	1,900
Federal Employee Salary, Leave, and Benefits Payable	-	(735)	(735)
Pensions and Other Post-Employment Benefits Payable	-	(601)	(601)
Advances from Others and Deferred Revenue	-	1	1
Other Liabilities	(441)	(493)	(934)
Financing Sources			
Imputed Financing	(4,546)	-	(4,546)
Total Components of Net Cost That are Not Part of Net Outlays	(1,842)	307,241	305,399
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of Capital Assets	-	776	776
Acquisition of Inventory	-	86,925	86,925
Total Components of Net Outlays That are Not Part of Net Cost	-	87,701	87,701
NET OUTLAYS	\$ 164,054	\$ 996,048	1,160,102
Outlays, Net, Statements of Budgetary Resources			1,160,102
Reconciling Difference			\$ -

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

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

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

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

For FY 2024, the key reconciling differences between the net cost and net outlays for DLA GF include: (1) Advances and Prepayments related to the receipt of PDW inventory; (2) Environmental Liabilities related to an increase in the out-year cost estimates for several defense depots and an increase in requirements scope and cost estimating; (3) Accounts Payable increased due to an increase in O&M

for less undistributed disbursements; and (4) Purchases of inventory held-for-sale to support the PDW program.

For FY 2023, the key reconciling differences between the net cost and net outlays for DLA GF include: (1) Advances and Prepayments related to commercial interim financing payments for PDW and (2) the acquisition of capital assets that have no impact on net cost .

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



JAMBOREE SUPPORT

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

Note 11: Restatements (Unaudited)

In FY 2024, DLA GF restated its FY 2023 financial statements to correct errors in the Balance Sheet and Statement of Changes in Net Position. The impact of these errors resulted in DLA GF's Net Position, reported on the financial statements, to be overstated by \$30.2 million. DLA GF made adjustments to properly recognize: (1) Internal-Use Software in Development expenses and (2) Construction-in-Progress expenses. More specifically:

Internal-Use Software in Development Expenses:

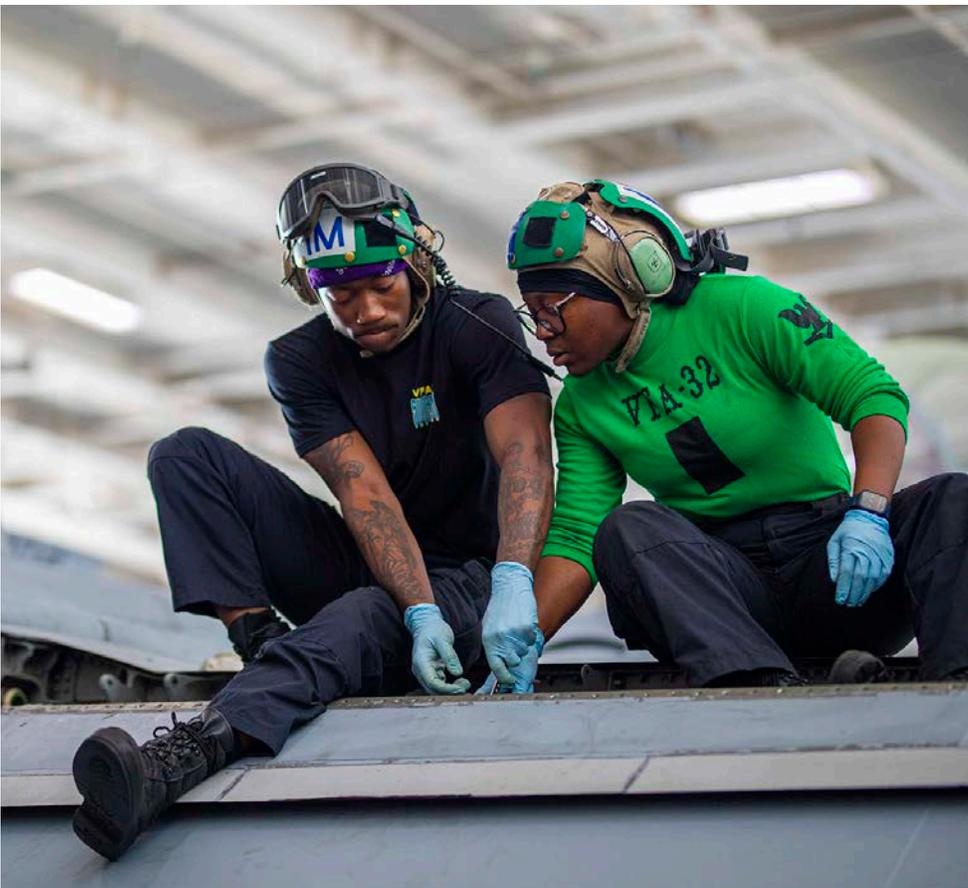
The FY2023 Internal Use Software (IUS) in Development capitalization cost was corrected to reflect IUS costs that should have been expensed rather than capitalized in previous fiscal years. The impact of this error resulted in DLA GF's General Property Plant and Equipment, Net and Cumulative Results of Operations to be overstated by \$21.1 million. The correction required prior period adjustments for the FY 2023 Balance Sheet

and Statement of Changes in Net Position by decreasing General Property, Plant and Equipment, Net and Cumulative Results of Operations by \$21.1 million.

Construction-in-Progress Expenses:

The FY2023 Construction-in-Progress (CIP) capitalization costs were corrected to reflect CIP costs that should have been expensed. The impact of this error resulted in DLA GF's General Property Plant and Equipment, Net and Cumulative Results of Operations to be overstated by \$9.1 million. The correction required prior period adjustments for the FY 2023 Balance Sheet and Statement of Changes in Net Position by decreasing General Property, Plant and Equipment, Net and Cumulative Results of Operations by \$9.1 million.

(Refer to Note 1.C., *Departures from U.S. GAAP*, Note 1.G., *General Property, Plant, and Equipment, Net*, Note 1.O., *Net Position*, and Note 1.Q., *Expenses*.)



CONDUCTING MAINTENANCE

Navy Petty Officer 3rd Class Ajvard Sinclair, left, and Navy Petty Officer 3rd Class Roxann Baker, conduct maintenance on an F/A-18F Super Hornet, attached to the "Fighting Swordsmen" of Strike Fighter Squadron 32, aboard the aircraft carrier USS Dwight D. Eisenhower in the Mediterranean Sea. **Photo By:** Navy Petty Officer 3rd Class Janae Chambers

Balance Sheet As of September 30, 2023 (dollars in thousands)	Unaudited FY 2023 Previously Reported	Unaudited FY 2023 Adjustments	Unaudited FY 2023 Restated
ASSETS			
Intragovernmental Assets			
Fund Balance with Treasury (Note 2)	\$ 2,251,314	\$ -	\$ 2,251,314
Accounts Receivable, Net (Note 3)	14,768	-	14,768
Total Intragovernmental Assets	2,266,082	-	2,266,082
Other than Intragovernmental Assets			
Accounts Receivable, Net (Note 3)	29	-	29
General Property, Plant and Equipment (Note 4)	526,858	(30,208)	496,650
Advances and Prepayments	113,922	-	113,922
Other Assets	88	-	88
Total Other than Intragovernmental Assets	640,897	-	610,689
TOTAL ASSETS	\$ 2,906,979	\$ (30,208)	\$ 2,876,771
LIABILITIES (Note 5)			
Intragovernmental Liabilities			
Accounts Payable	\$ 19,262	\$ -	\$ 19,262
Other Liabilities (Note 6)	1,746	-	1,746
Total Intragovernmental Liabilities	21,008	-	21,008
Other than Intragovernmental Liabilities			
Accounts Payable	53,814	-	53,814
Environmental and Disposal Liabilities (Note 7)	76,446	-	76,446
Federal Employee Salary, Leave, and Benefits Payable (Note 6)	8,395	-	8,395
Pension and Post-Employment Benefits Payable (Note 6)	2,738	-	2,738
Advances from Others and Deferred Revenue	23	-	23
Other Liabilities (Note 8)	1,839	-	1,839
Total Other than Intragovernmental Liabilities	143,255	-	143,255
TOTAL LIABILITIES	\$ 164,263	\$ -	\$ 164,263
Commitments and Contingencies			
NET POSITION			
Unexpended Appropriations-Funds from Other than Dedicated Collections	\$ 2,296,782	\$ -	\$ 2,296,782
Cumulative Results of Operations-Funds from Other than Dedicated Collections	445,934	(30,208)	415,726
TOTAL NET POSITION	\$ 2,742,716	\$ (30,208)	\$ 2,712,508
TOTAL LIABILITIES AND NET POSITION	\$ 2,906,979	\$ (30,208)	\$ 2,876,771

Statement of Changes in Net Position For the Year September 30, 2023 (dollars in thousands)	Unaudited FY 2023 Previously Reported	Unaudited FY 2023 Adjustments	Unaudited FY 2023 Restated
Unexpended Appropriations			
Beginning Balances	\$ 2,344,480	\$ -	\$ 2,344,480
Appropriations Received	1,035,743	-	1,035,743
Appropriations Transferred-in/out	(12,049)	-	(12,049)
Other Adjustments	(19,081)	-	(19,081)
Appropriations Used	(1,052,311)	-	(1,052,311)
Change in Unexpended Appropriations	(47,698)	-	(47,698)
Total Unexpended Appropriations: Ending Balance	2,296,782	-	2,296,782
Cumulative Results of Operations			
Beginning Balances	\$ 336,638	\$ -	\$ 336,638
Correction of Errors	-	(30,208)	(30,208)
Beginning Balances, as Adjusted	336,638	-	306,430
Other Adjustments	141	-	141
Appropriations Used	1,052,311	-	1,052,311
Transfers-in/out Without Reimbursement	(180,700)	-	(180,700)
Imputed Financing	4,546	-	4,546
Net Cost of Operations	767,002	-	767,002
Net Change in Cumulative Results of Operations	109,296	-	109,296
Cumulative Results of Operations: Ending Balance	445,934	(30,208)	415,726
TOTAL NET POSITION	\$ 2,742,716	\$ (30,208)	\$ 2,712,508

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Combining Statements of Budgetary Resources

The Combining Statements of Budgetary Resources combines the availability, status, and outlays of DLA GF 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., *Combining Statements of*

Budgetary Resources). The below tables provide the Combining Statements of the Budgetary Resources disaggregated by DLA GF programs for the years ended September 30, 2024 and 2023, respectively. As the Combining Statements of the Budgetary Resources are prepared at the appropriation level, DLA GF presented the programs by appropriation. However, for reporting purposes, due to the materiality and size of Family Housing, DLA GF combined the Family Housing Program with MILCON in its Statements of Net Cost for presentation purposes.

Continued on next page ►



RAFTING MARINES

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

Combining Statement of Budgetary Resources

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

	Operation and Maintenance	Procurement Defense-Wide	Research, Development, Test & Evaluation	Family Housing	Military Construction	FY 2024 Total
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority, Net	\$ 31,646	\$ 37,346	\$ 116,609	\$ -	\$ 437,814	\$ 623,415
Appropriations	449,807	105,528	270,610	-	285,651	1,111,596
Spending Authority from Offsetting Collections	44,088	-	57,093	-	-	101,181
TOTAL BUDGETARY RESOURCES	\$ 525,541	\$ 142,874	\$ 444,312	\$ -	\$ 723,465	\$ 1,836,192
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments	\$ 503,778	\$ 45,679	\$ 358,663	\$ -	\$ 249,083	\$ 1,157,203
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	2,855	96,486	60,757	-	448,084	608,182
Unexpired Unobligated Balance, End of Year	2,855	96,486	60,757	-	448,084	608,182
Expired Unobligated Balance, End of Year	18,908	709	24,892	-	26,298	70,807
Total Unobligated Balance, End of Year	21,763	97,195	85,649	-	474,382	678,989
TOTAL BUDGETARY RESOURCES	\$ 525,541	\$ 142,874	\$ 444,312	\$ -	\$ 723,465	\$ 1,836,192
OUTLAYS, NET						
Outlays, Net	\$ 417,562	\$ 263,216	\$ 327,967	\$ -	\$ 185,980	\$ 1,194,725
AGENCY OUTLAYS, NET	\$ 417,562	\$ 263,216	\$ 327,967	\$ -	\$ 185,980	\$ 1,194,725

Combining Statement of Budgetary Resources

For the Year Ended September 30, 2023 (dollars in thousands)

	Operation and Maintenance	Procurement Defense-Wide	Research, Development, Test & Evaluation	Family Housing	Military Construction	FY 2023 Total
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority, Net	\$ 41,836	\$ 15,724	\$ 123,891	\$ 35	\$ 486,333	\$ 667,819
Appropriations	419,623	24,501	356,706	-	220,494	1,021,324
Spending Authority from Offsetting Collections	40,656	-	49,704	-	-	90,360
TOTAL BUDGETARY RESOURCES	\$ 502,115	\$ 40,225	\$ 530,301	\$ 35	\$ 706,827	\$ 1,779,503
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments	\$ 466,102	\$ 23,506	\$ 430,846	\$ -	\$ 277,763	\$ 1,198,217
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	1,617	16,202	77,918	-	401,481	497,218
Unexpired Unobligated Balance, End of Year	1,617	16,202	77,918	-	401,481	497,218
Expired Unobligated Balance, End of Year	34,396	517	21,537	35	27,583	84,068
Total Unobligated Balance, End of Year	36,013	16,719	99,455	35	429,064	581,286
TOTAL BUDGETARY RESOURCES	\$ 502,115	\$ 40,225	\$ 530,301	\$ 35	\$ 706,827	\$ 1,779,503
OUTLAYS, NET						
Outlays, Net	\$ 425,954	\$ 222,842	\$ 324,868	\$ 24	\$ 186,414	\$ 1,160,102
AGENCY OUTLAYS, NET	\$ 425,954	\$ 222,842	\$ 324,868	\$ 24	\$ 186,414	\$ 1,160,102

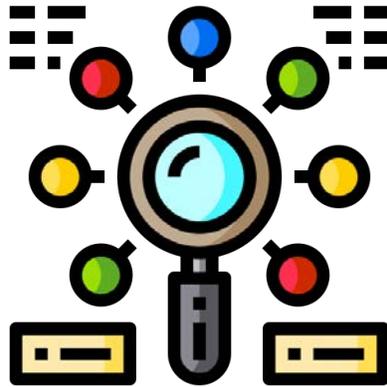


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DEFENSE AGENCY
YEAR
REPORT





SECTION 3



**OTHER
INFORMATION**

SECTION 3

Management's Discussion and Analysis (Unaudited)

IN THIS SECTION:

- 256** Summary of Financial Statement Audit and Management Assurances
- 262** Revenue Forgone
- 263** Management Challenges
- 267** Payment Integrity

SECTION 3 Title Page Image Captions + Credits (listed clockwise)

1. FORWARD MARCH

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

2. READY REFUEL

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

3. ENJOYING THE VIEW

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

4. CARRIER OPERATIONS

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

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The audit reports on the FY 2024 and FY 2023 DLA WCF and GF financial statements identified material weaknesses for DLA WCF and GF. Table 1 below provides a summary of the DLA WCF and GF financial statement audit results for FY 2024 and FY 2023, as restated (GF only).

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 2024 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



LIGHTNING LAUNCH

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

Table 1: FY 2024 DLA GF Summary of the Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Property, Plant & Equipment	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
Accounting for Long-Term Contracts	1	-	-	-	1
Total Material Weaknesses	8	-	-	-	8

The DLA SOA package only includes self-identified material weaknesses and significant deficiencies for internal DoD reporting; however, DLA continues to monitor the WCF and GF financial statement audit material weakness areas separately. DLA's FY 2024 Material Weaknesses and Significant Deficiencies template does not include self-identified material weaknesses in the area of Internal Controls over Operations (ICOR-O). In FY 2024, the 6 WCF Internal Controls over Financial Reporting (ICOFR) material weaknesses, 7 GF ICOFR

material weaknesses, and 4 DLA Internal Controls over Financial Systems (ICOFS) non-conformances 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 2024. The DLA Audit Coordination & Liaison group continues to separately track WCF and GF financial statement audit findings and CAPs and report these to the Office of the Deputy Chief Financial Officer.

Table 2: 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 2024 material weaknesses associated with DLA.



EMERGENCY DELIVERY

Marines and Filipino citizens offload emergency supplies from a Marine Corps CH-53E Super Stallion helicopter during relief operations in the wake of Typhoon Doksuri on Fuga Island in the Philippines, Aug. 8, 2023. During three days of relief efforts, the Marine Corps delivered approximately 64,000 pounds of food and water to remote communities. **Photo by:** Marine Corps Sgt. Sean Potter

Table 2: Summary of Management Assurances

GF Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance	No Assurance					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Acquire-to-Retire: Property, Plant and Equipment	1	-	-	-	-	1
Oversight and Monitoring	1	-	-	-	-	1
Financial Reporting	1	-	-	-	-	1
Fund Balance with Treasury	1	-	-	-	-	1
Order-to-Cash: Accounts Receivable and Revenue	1	-	-	-	-	1
Procure-to-Pay: Accounts Payable and Expenses	1	-	-	-	-	1
Accounting for Long-Term Contracts	1	-	-	-	-	1
Total Material Weaknesses	7	-	-	-	-	7

Table 2: Summary of Management Assurances

DLA Conformance with Federal Financial Management System Requirements (FMFIA § 4)

Statement of Assurance	Federal Systems do not conform to financial management system requirements					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Non-Conformances						
Security Management	1	-	-	-	-	1
Access Controls	1	-	-	-	-	1
Segregation of Duties	1	-	-	-	-	1
Configuration Management	1	-	-	-	-	1
Total Non-Conformances	4	-	-	-	-	4



WASP ARG-24TH MEU (SOC) BEGIN DEPLOYMENT

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

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

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

Table 2: Summary of Management Assurances

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



STEEL KNIGHT 23.2

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

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 denotes the difference between the price DLA charges in exchange transactions and the full cost or market price. DLA Energy’s incurred revenue forgone from fuel sales totaled \$502.6 million and \$0.0 million for the years ended September 30, 2024 and 2023, respectively. 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 Standard Fuel Price (SFP), certain transactions recorded by DLA use the cost-plus method. Due to DLA WCF’s utilization of the cost-plus method, the table below is not a complete depiction of energy revenue forgone.

Revenue forgone, as disclosed below, is presented on a net basis. However, higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue foregone.

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 and GF Note 1.B., Basis of Presentation and Accounting.

DLA Energy Revenue Forgone (dollars in millions)

	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Energy Revenue Forgone	\$ (503)	-	\$ (2,590)	\$ (810)	-
Total Revenue Forgone	\$ (503)	-	\$ (2,590)	\$ (810)	-



DLA SUPPLY CHAIN ALLIANCE CONFERENCE AND EXHIBITION

Pete Steen, Global Strategy and Economics Advisor to the Joint Staff, delivers a world scene-setter presentation April 23 at the DLA Supply Chain Alliance Conference and Exhibition in Columbus, Ohio. **Photo by:** Arthur Hylton/DSCC

MANAGEMENT CHALLENGES



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

29 August 2024

MEMORANDUM FOR LTG MARK SIMERLY, DIRECTOR, DLA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

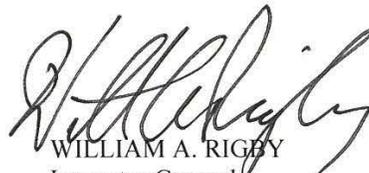
a. Retention of Critical Skill Sets: General population trends indicate that by 2030 roughly 25% of the workforce will be over 65. This represents a significant challenge to DLA in retaining existing critical skillsets while simultaneously improving the data acumen skills of existing and future employees.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

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

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

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

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



WILLIAM A. RIGBY
Inspector General

PAYMENT INTEGRITY

The Payment Integrity Information Act of 2019 (PIIA) (Pub. L. 116-117), requires Agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments (IPs), estimate the 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](https://www.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/>.



DLA AVIATION'S TOP CIVILIAN PRIVATELY CONTROLS SMALL AIRCRAFT SQUADRON

Charlie Lilli, the deputy commander of Defense Logistics Agency Aviation, stands proudly amidst his extensive collection of radio-controlled aircraft. With a lifelong passion for aviation sparked by family influences and a distinguished Navy career, Lilli enjoys the thrills of flight through his hobby, showcasing aerobatic maneuvers with his favorite, the T-28 Trojan, and sharing his love for RC flying with the next generation. **Photo by:** Stephen Baker



VEHICLES HEADING FOR SCRAP

Vehicles from the installation “boneyard” are once again being cleared out by DLA Disposition Services. **Photo By:** Frankie Rivera





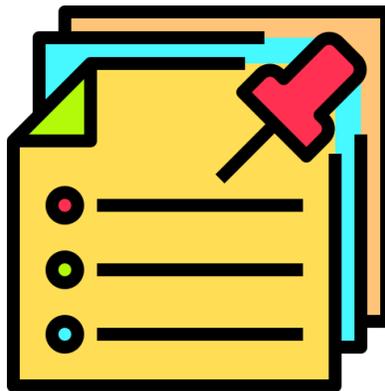
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APPENDIX



WCF | GF FY2024

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, CCMDs and the American people.

DLA Transformation (DT) directorate synchronizes strategy, policy, and process to support the Warfighter, strengthen alliances and drive innovation. DT manages DLA's strategic plan, executive governance forums, and the Agency-wide deployment of Enterprise Pro-

cess Management, Continuous Process Improvement, Enterprise Organizational Alignment, and Enterprise Policy Management programs.

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



TACTICAL PAUSE

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

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 Utility 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	DFAS	Defense Finance and Accounting Service
A/BO	Approving/Billing Officials	DISA	Defense Information System Agency
ADA	Anti-Deficiency Act	DLA	Defense Logistics Agency
AFR	Agency Financial Report	DMEA	Defense Microelectronic Activity
A/OPC	Agency/Organization Program Coordinators	DM-I	Installation Management – Installation & Equipment
AP	Accounts Payable	DM&R	Deferred Maintenance and Repairs
APR	Annual Performance Report	DoD	Department of Defense
AR	Accounts Receivable	DoE	Department of Energy
ASIC	Application Specific Integrated Circuit	DOL	Department of Labor
ASP	Annual Sales Plan	DSA	Defense Supply Agency
ATB	Adjusted Trial Balance	DSCC	Defense Supply Center Columbus
BPR	Business Process Reengineering	DWWCF	Defense-Wide Working Capital Fund
BRAC	Base Realignment and Closure	EBS	Enterprise Business System
C&E	Construction and Equipment	ECC	Resource Planning Central Component
C&T	Clothing and Textiles	E&DL	Environmental and Disposal Liabilities
CAPs	Corrective Action Plans	EOU	Excess, Obsolete, and Unserviceable
CARS	Central Accounting and Reporting System	ERM	Enterprise Risk Management
CCMD	Combatant Command	ERP	Enterprise Resource Planning
CCs	Critical Capabilities	FASAB	Federal Accounting Standards Advisory Board
CFO	Chief Financial Officers	FBwT	Fund Balance with Treasury
Charge Card Act	Charge Card Abuse Prevention Act	FCI	Facility Condition Index
CIP	Construction-in-Progress	FEA	Fuel Exchange Agreements
CMR	Cash Management Report	FECA	Federal Employees' Compensation Act
COLA	Cost of Living Adjustments	FERS	Federal Employees Retirement System
COVID-19	Coronavirus-19	FFMIA	Federal Financial Management Improvement Act
CPM	Component Program Manager	FMFIA	Federal Managers' Financial Integrity Act
CRR	Cost Recovery Rate	FMR	Financial Management Regulations
CSRS	Civil Service Retirement System	FMS	Foreign Military Sales
CTC	Cost To Complete	FY	Fiscal Year
CUECs	Complementary User Entity Controls	GAAP	Generally Accepted Accounting Principles
DAI	Defense Agencies Initiative	GAO	Government Accountability Office
DATA Act	Digital Accountability and Transparency Act of 2014	GF	General Fund
DDRS	Defense Departmental Reporting System	GMRA	Government Management Reform Act
DERP	Defense Environmental Restoration Program	GPC	Government Purchase Card

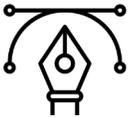
GSA	General Services Administration	PPA	Prompt Payment Act
HQ	Headquarter	R&D	Research & Development
ICOFR	Internal Controls over Financial Reporting	RACER	Remedial Action Cost Engineering and Requirements
ID	Identification	RCRA	Resource Conservation and Recovery Act
IC	Internal Controls	RDT&E	Research, Development, Test & Evaluate
IH	Industrial Hardware	RMIC	Risk Management and Internal Control
IOD	Insight on Demand	SAP	Systems Applications and Product
IPA	Independent Public Accounting	SCM	Supply Chain Management
IPs	Improper Payments	SDs	Significant Differences
IRF	Inventory Reconciliation Framework	SFFAS	Statement of Federal Financial Accounting Standards
IRP	Installation Restoration Program	SFP	Standard Fuel Price
IT	Information Technology	SMS	Sustainment Management System
IUS	Internal Use Software	SOC 1	System and Organization Controls
JV	Journal Voucher	SOD	Statement of Difference
LOEs	Lines of Effort	SRM	Sustainment, Restoration and Maintenance
MAC	Moving Average Cost	TAS	Treasury Account Symbol
MILCON	Military Construction	TDD	Treasury Direct Disbursing
MOCAS	Mechanization of Contract Administration Services	TFM	Treasury Financial Manual
MSC	Major Subordinate Command	TI	Treasury Index
MWs	Material Weaknesses	U.S.	United States
NAVFAC	Naval Facilities Engineering Command	UCO	Unfilled Customer Orders
NDSTF	National Defense Stockpile Transaction Fund	UDO	Undelivered Orders
NFR	Notice of Findings and Recommendations	ULO	Unliquidated Obligation
NRV	Net Realizable Value	UoT	Universe of Transactions
NSNs	Non-National Stock Numbers	USACE	U.S. Army Corps of Engineers
O&M	Operation and Maintenance	USAF	United States Air Force
ODOs	Other Defense Organizations	USMC	United States Marine Corps
OIG	Office of the Inspector General	USSGL	U.S. Standard General Ledger
OMB	Office of Management and Budget	UTB	Unadjusted Trial Balance
OSD	Office of the Secretary of Defense	WCF	Working Capital Fund
OUSD	Office of the Under Secretary of Defense		
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)		
P3	Public-Private Partnerships		
PDW	Procurement Defense-Wide		
POCs	Point-of-Cares		
PP&E	General Property, Plant, and Equipment		

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ICON + IMAGE CREDITS



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

1. CARRIER OPERATIONS

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

2. CARRIER OPERATIONS

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

3. CARRIER OPERATIONS

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

4. CARRIER OPERATIONS

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



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