United States Department of Defense

AGENCY FINANCIAL REPORT

FISCAL YEAR 2022

DEPARTMENT OF DEFENSE AT A GLANCE

BRIEF HISTORY

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

Service members conduct an Armed Forces Full Honor Wreath-Laying Ceremony at President William H. Taft's Memorial Gravesite in Section 30, Arlington National Cemetery, Arlington, Va., Sept. 15, 2022. Photo by Elizabeth Fraser

Headquarters

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

For Pentagon Tour information, click *here*.

Mission

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

Employees

The Department of Defense is the country's largest employer, with more than 2.1 million Military Service members and over 770 thousand civilian employees.

For information on the armed forces, click *here*.
For information on military rank insignia, click *here*.

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ABOUT THE DEPARTMENT OF DEFENSE AGENCY FINANCIAL REPORT

The United States Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2022 provides an overview of the Department's financial information as well as preliminary summary-level performance results. The AFR demonstrates to Congress, the President, and the public the Department's commitment to its mission and to accountability and stewardship over the resources entrusted to it. This report satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – requires ongoing evaluations and reports of the adequacy of internal accounting and administrative controls, and whether financial management systems comply with federal financial management systems requirements;
- Chief Financial Officers (CFO) Act of 1990, as amended – established the position of Chief Financial Officer, requires audited financial statements for each major executive agency, and requires the Director of the Office of Management and Budget to prescribe the form and content of the financial statements;
- Federal Financial Management Improvement Act (FFMIA) of 1996 – requires financial statement audits to assess the compliance of an agency's financial management systems with Federal requirements, Federal accounting standards, and the United States Government General Ledger;
- Reports Consolidation Act of 2000 – permits agencies to consolidate certain statutorily required reports into a single annual report and requires certain information be contained in the consolidated report; and
- Payment Integrity Information Act (PIIA) of 2019 – requires agencies to improve their efforts to identify and reduce government-wide improper payments.

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

- An AFR, published in November 2022, which focuses primarily on financial results and a high-level discussion of performance results, and
- An Annual Performance Report (APR), published in February 2023, which details DoD strategic goals, performance measures, and results.

The estimated cost of the AFR for the Department is $443,000 in Fiscal Years 2022 – 2023. This includes $184,000 in expenses and $259,000 in DoD labor. The estimated cost of the AFR was generated on November 8, 2022 (cost estimate report reference ID: 2-751C4EE).

Soldiers assigned to the 1st Special Forces Command (Airborne) hold a wreath laying ceremony at the gravesite of President John F. Kennedy in Section 45 of Arlington National Cemetery, Va., Sept. 27, 2022. The yearly ceremony commemorates Kennedy's contributions to the Army Special Forces. Photo by Elizabeth Fraser, Army.

WEBSITES AND MEDIA PLATFORMS

NEWS SERVICES

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

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

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

OPPORTUNITIES:

Join the Military

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

- *DoD Civilian careers*
- *Contract opportunities for small business*

MEDIA PLATFORMS

@DeptofDefense (Twitter)

@DeptofDefense (Facebook)

@DeptofDefense (Instagram)

@DeptofDefense (YouTube)

@DeptofDefense (LinkedIn)

Subscribe to *DoD RSS Feeds*.

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

RESOURCES

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

MESSAGE FROM THE SECRETARY OF DEFENSE

November 15, 2022

I am pleased to present the Department of Defense Agency Financial Report for Fiscal Year 2022 to the President, Congress, and the American people. This report assesses our management of the resources entrusted to the Department in fiscal year 2022 and underscores our commitment to transparency and responsible stewardship of those resources as we keep our country safe today and into the future.

Throughout the past fiscal year, the Department has continued to focus on three top priorities: defending the Nation; taking care of our people; and succeeding through teamwork.

We defend our country by standing ready to deter aggression, no matter if it emanates from the People's Republic of China, our number one pacing challenge, or from Iran, North Korea, or transnational terrorist groups. In the face of Russia's baseless and reckless war of choice against Ukraine, the United States has provided an unprecedented amount of security assistance to the Ukrainian people as they fight valiantly for their democracy, their sovereign territory, and their freedom. Earlier this year, I established the Ukraine Defense Contact Group to rally our allies and partners to support Ukraine in its hour of need. That work continues to make a difference for Ukraine's defenders, and it has shown how we succeed through teamwork when like-minded countries defend shared values.

The Department is also investing in our most precious resource—our people. This is a national security imperative, and I am proud of our work to make necessities like housing and food more affordable, strengthen support to families (such as child care), and boost pay allowances for qualifying military households. I am grateful to each member of the DoD workforce for remaining steadfast through a time of great challenges, including the ongoing COVID-19 pandemic.
As we continue our vital work, the Department remains committed to its annual financial statement audit regimen. The Statement of Assurance within the Management's Discussion and Analysis section outlines my assessment of the effectiveness of internal controls over financial reporting, comprising the material weakness areas impeding the completeness and reliability of our performance and financial data, as well as compliance with relevant laws and regulations. In addition, the Financial Section provides the Independent Auditor's Report that details the results of this year's audit, which includes a disclaimer of opinion that identified multiple areas for improvement. These findings and recommendations will help us better target and prioritize corrective actions to improve the quality of our financial reporting process and data. The Summary of Financial Statement Audit and Management Assurances within the Other Information section provides the corrective actions the Department is taking to address these inadequacies to include remediation efforts for my three audit priority areas of Fund Balance with Treasury, Access Control, and Universe of Transactions.

The audit remediation effort and our goal of achieving an unmodified audit opinion are key parts of ensuring the Department responsibly manages our resources. We remain committed to modernizing and reforming our business practices to better fulfill our mission to keep our country safe. The Department of Defense is grateful to Congress for its support and investment in that mission, and I am confident that this report demonstrates the Department's effective and responsible use of its resources and will help us do even better in the future.

Lloyd J. Austin III

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FURUNO

MANAGEMENT'S DISCUSSION & ANALYSIS

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

Previous Page: Marines unload light armored vehicles during Steel Knight at Marine Corps Base Camp Pendleton, Calif., Dec. 6, 2021. The exercise enables Marines to operate in a realistic, combined-arms environment to enhance naval warfighting tactics, techniques and procedures. Photo by Marine Corps Lance Cpl. Casandra Lamas.

Left: The USS Ronald Reagan, USS Tripoli and USS Abraham Lincoln steam in formation in the Philippine Sea, June 12, 2022, during Valiant Shield, a field training exercise. Photo By: Navy Petty Officer 3rd Class Gray Gibson

THE TOPGUN LEGACY: MAKING MAVERICKS WITH CAPT. BRIAN FERGUSON

Navy Aerial Advisor Capt. Brian Ferguson and Glen Powell on the set of Top Gun: Maverick by Paramount Pictures, Skydance and Jerry Bruckheimer Films.

Read the full story here.

MISSION OVERVIEW

The enduring mission of the Department of Defense (DoD or the Department) is to provide the military forces to deter war and ensure the Nation's security. The Department will continue to provide combat credible military forces capable of defending against aggression that undermines the security of both the United States (U.S.) and its allies.

Today, the United States faces a dynamic and challenging security environment shaped by increasingly capable state competitors. The People's Republic of China (PRC or China) is the most consequential strategic competitor of the United States and the pacing challenge for the Department, while Russia poses acute threats, as illustrated by its brutal and unprovoked invasion of Ukraine. The Department remains capable of managing other persistent threats including those from North Korea, Iran, and violent extremist organizations. Furthermore, changes in global climate and other dangerous transboundary threats, including pandemics, are transforming the context in which the Department operates. Recognizing growing kinetic and non-kinetic threats to the United States' homeland from our strategic competitors, the Department will take necessary actions to increase resilience—that is, the ability to withstand, fight through, and recover quickly from disruption.

To ensure tight linkage between strategy and resourcing, the Department integrated the major findings and conclusions of the Nuclear Posture Review and Missile Defense Review in the National Defense Strategy (NDS). Consistent with the President's Interim National Security Strategic Guidance, and in accordance with the NDS, the Department will contribute toward advancing and safeguarding vital U.S. national interests, protecting the American people, expanding America's prosperity, and defending our democratic values. The NDS serves as the key strategic document driving the Department's goals, investments, and programmatic decisions along the following priorities:

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

The Department will adapt to these challenges, which increasingly place pressure on the Joint Force and the systems that support it. A resilient Joint Force will underpin a whole-of-nation approach to national security that builds consensus, drives creative solutions to crises, and ensures the Nation leads from a position of strength.

Secretary of Defense Lloyd J. Austin III speaks with U.S. Military Academy cadets at the annual Army-Navy football game at MetLife Stadium in East Rutherford, N.J., Dec. 11, 2021. Photo By: Air Force Staff Sgt. Jack Sanders

ORGANIZATIONAL STRUCTURE

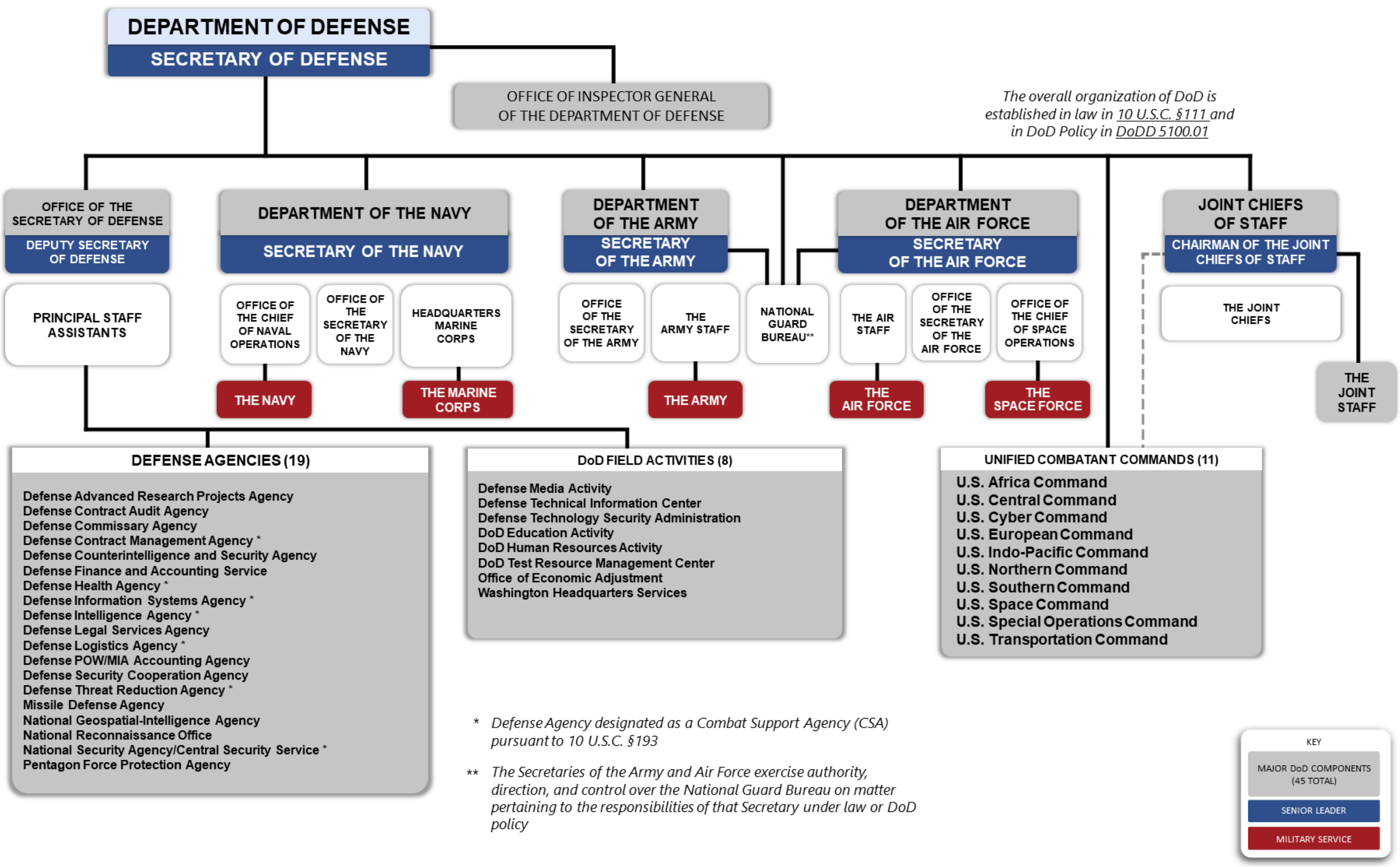
The Department is one of the Nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 military personnel serving in the National Guard and Reserve forces, and approximately 770,000 civilian employees. DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyberspace. In fulfilling the Department's mission, Military Service members operate approximately 19,700 aircraft and over 290 battle force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 643,900 assets (buildings; structures; and linear structures, such as utilities, roads, and fences) located on over 4,860 sites worldwide as of the beginning of Fiscal Year (FY) 2022. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and more than 40 foreign countries. These sites represent a total of nearly 25.8 million acres that individually vary in size from military training ranges with over 3.4 million acres such as *White Sands Missile Range*, to single weather towers, power line supports, or navigational aids isolated on sites of less than one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond their mission-specific areas (e.g., runways, training areas, and industrial complexes), DoD installations also contain many types of facilities supporting community operations similar to those found in municipalities or on university campuses (e.g., public safety, hospital and medical, dining, and religious facilities; community support complexes; housing and dormitories; utility systems; and roadways).

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

Two Air Force F-16 Fighting Falcon aircraft assigned to the 480th Expeditionary Fighter Squadron at Spangdahlem Air Base, Germany, fly alongside two Romanian F-16s over Romania, March 14, 2022. Airmen routinely train with NATO partners and allies to ensure safety and stability within the European theater. Photo by Air Force Senior Airman Ali Stewart.

Figure 1. Department of Defense Organizational Structure



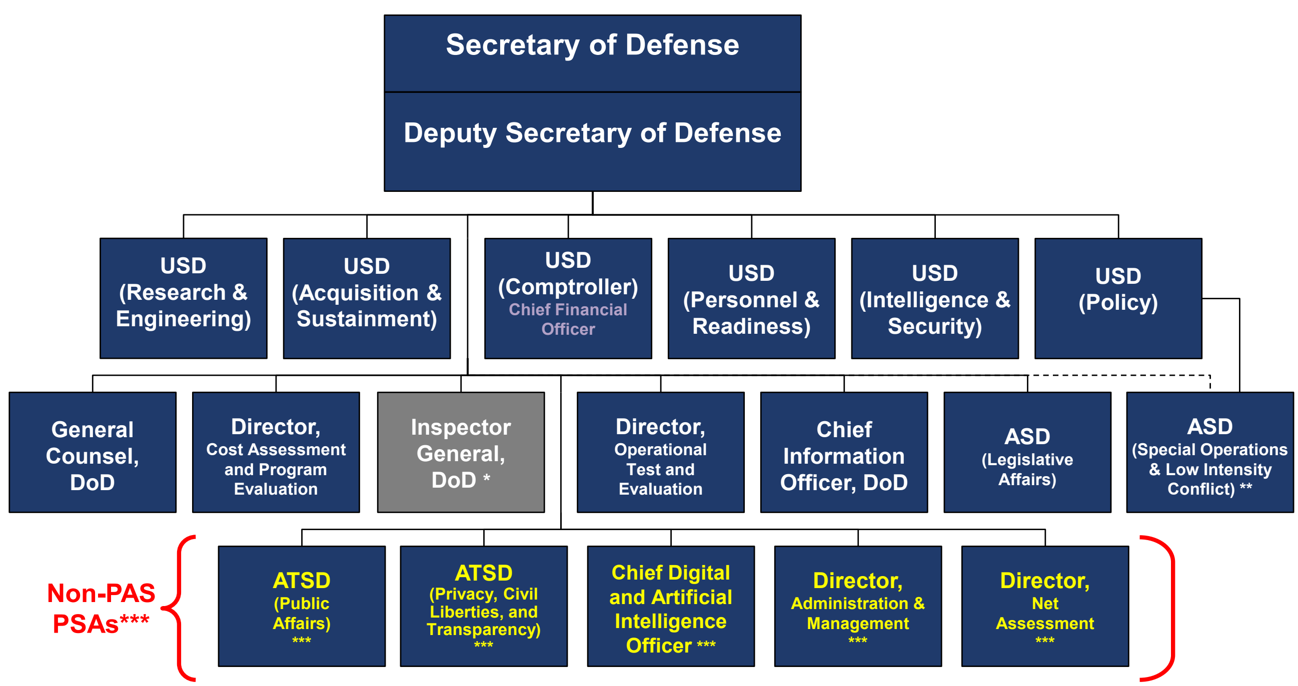
Soldiers fly in an Army MH-6 helicopter during a special operations forces capabilities demonstration over Tampa Bay, Fla., May 18, 2022. Photo by Air Force Staff Sgt. Alexander Cook.

OFFICE OF THE SECRETARY OF DEFENSE

The function of the Office of the Secretary of Defense (OSD) is to assist the Secretary of Defense in carrying out the duties and responsibilities as prescribed by law. The OSD comprises the Deputy Secretary of Defense, the Under Secretaries of Defense (USDs), the General Counsel of the DoD, the Assistant Secretaries of Defense (ASDs), the Inspector General of the DoD, and other staff offices within OSD established by law or by the Secretary of Defense.

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

Figure 2. Office of the Secretary of Defense Principal Staff Assistants



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

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

*** *All positions shown are Presidentially-appointed Senate confirmed (PAS) except those with *** which are SES positions.*

OFFICE OF INSPECTOR GENERAL

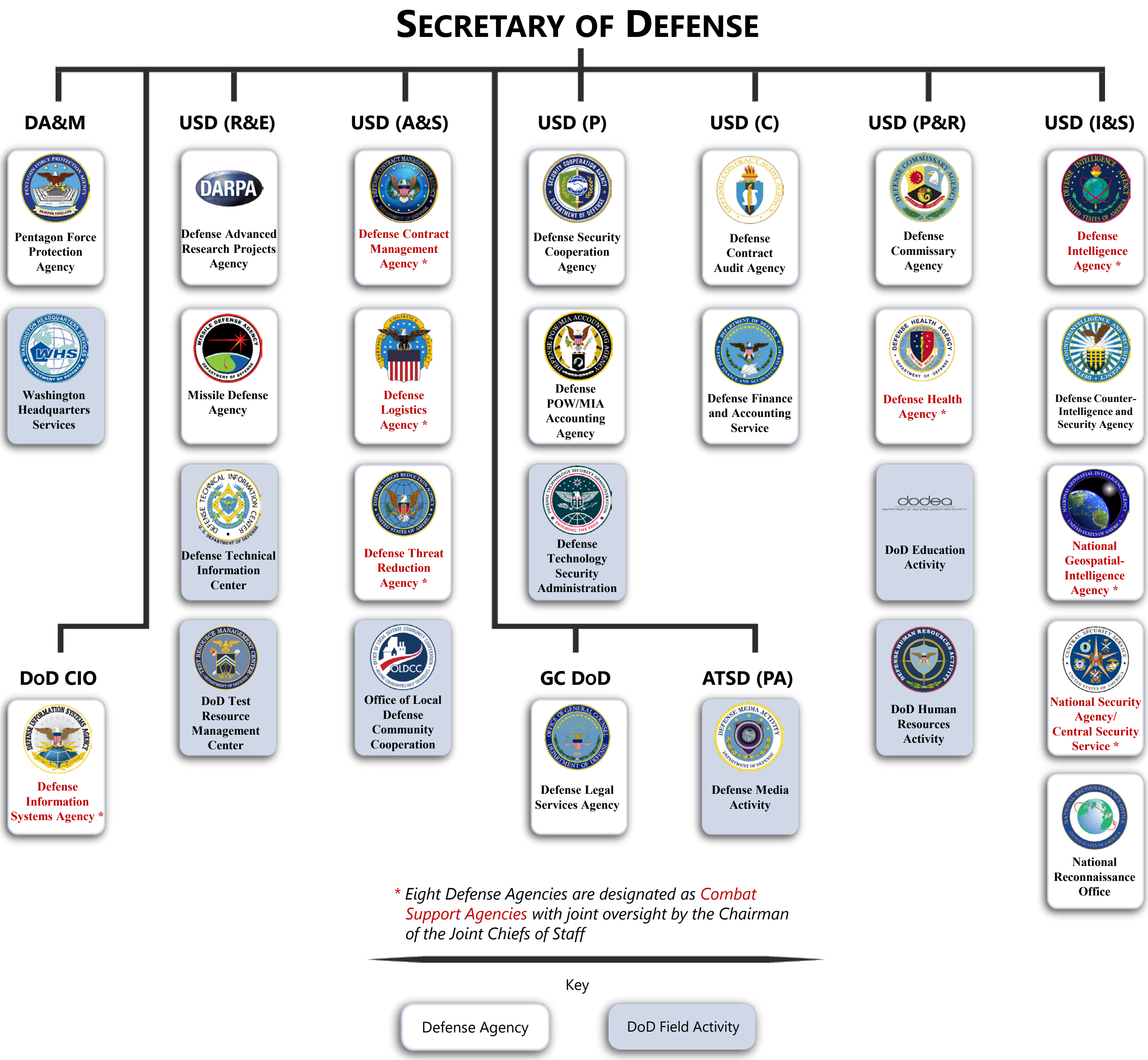
The Office of Inspector General of the DoD (DoD OIG) is an independent and objective unit within the Department that conducts and supervises audits, investigations, evaluations, and special reviews of the Department's programs and operations. The Inspector General of the DoD serves as the principal advisor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

DEFENSE AGENCIES AND DoD FIELD ACTIVITIES

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

Army Pfc. Bailey Vachon looks at a mock target during Eager Lion in Jordan, Sept. 5, 2022. With 28 countries participating, the exercise is one of the largest in the region. Photo by Army Sgt. Mark Hayward.

Figure 3. Defense Agencies and DoD Field Activities



THE JOINT CHIEFS OF STAFF AND THE JOINT STAFF

The Joint Chiefs of Staff (*JCS*), supported by the Joint Staff under the direction of the Chairman, constitute the immediate military staff of the Secretary of Defense. The JCS consists of the Chairman (*CJCS*), the Vice Chairman (*VCJCS*), the Chief of Staff of the Army (*CSA*), the Chief of Naval Operations (*CNO*), the Chief of Staff of the Air Force (*CSAF*), the Commandant of the Marine Corps (*CMC*), the Chief of Space Operations (*CSO*), and the Chief of the National Guard Bureau (*CNGB*). The JCS functions as the military advisors to the President, the National Security Council, and the Secretary of Defense.

Army Sgt. Justin Covert mans an M1A2 .50-caliber machine gun on a Stryker vehicle during training at Fort Irwin, Calif., as the Milky Way galactic center is visible overhead, May 24, 2022. Photo by Army Staff Sgt. Christopher Stewart.

COMBATANT COMMANDS

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them (see Figure 4). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President, to the Secretary of Defense, to the Commanders of the Combatant Commands, with the CJCS functioning within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 4. Combatant Commands

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

MILITARY DEPARTMENTS

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

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

Figure 5. Reserve Components - Reserve amd National Guard

Federal Missions

United States Army Reserve

United States Navy Reserve

United States Air Force Reserve

United States Marine Corps Reserve

United States Coast Guard Reserve

Federal and State Missions

Air National Guard

Army National Guard

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

RESOURCES

In FY 2022, the Department received total appropriations of $1,019.5 billion (see Figure 6).

Figure 6. Trend in DoD Appropriations

Description	FY 2022 ($ in Billions)	FY 2021 ($ in Billions)	FY 2020 ($ in Billions)	FY 2019 ($ in Billions)	FY 2018 ($ in Billions)
Discretionary Budget Authority	$ 776.6	$ 704.8	$ 723.1	$ 687.8	$ 670.6
Treasury contribution for Military Retirement and Health Benefits	125.0	114.9	107.0	101.6	96.3
Civil Works Projects executed by USACE	25.9	6.2	6.1	8.2	22.8
Trust Fund Receipts	283.1	215.9	168.5	172.5	164.2
Trust Fund Resources Temporarily not Available	(191.1)	(136.7)	(90.5)	(95.7)	(90.3)
Appropriations (Discretionary and Mandatory) Reported on Statement of Budgetary Resources	**$ 1,019.5**	**$ 905.1**	**$ 914.2**	**$ 874.4**	**$ 863.6**

Soldiers release heavy drop packages from an Air Force C-130 Hercules onto Frida drop zone during training in Pordenone, Italy, May 17, 2022. Photo by Paolo Bovo, Army.

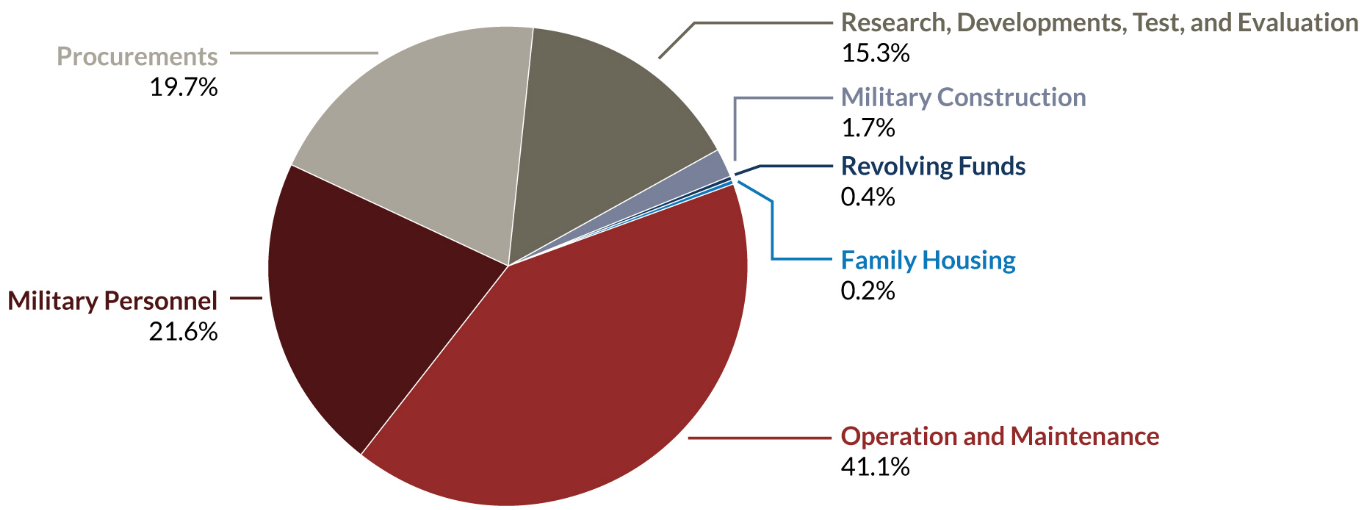
DISCRETIONARY APPROPRIATIONS

Discretionary Budget Authority

Discretionary Budget Authority represents the majority of the appropriations the Department receives. The Department's appropriations were authorized by the *National Defense Authorization Act (NDAA) for FY 2022*, and provided in the *Extending Government Funding and Delivering Emergency Assistance Act*; the *Further Extending Government Funding Act, 2022*; the *Further Additional Extending Government Funding Act*; the *Consolidated Appropriations Act, 2022*; and the *Additional Ukraine Supplemental Appropriations Act, 2022*. The FY 2022 Discretionary Budget Authority of $776.6 billion was provided to the Department using seven appropriation categories, which describe the intended use and purpose of the funds (see Figure 7).

Figure 7. FY 2022 Discretionary Budget Authority

Appropriation Category	$ in Billions		Percentage
Operation and Maintenance	$	319.2	41.1%
MIlitary Personnel	$	167.5	21.6%
Procurement	$	153.2	19.7%
Research, Development, Test, and Evaluation	$	119.1	15.3%
Military Construction	$	13.4	1.7%
Revolving Funds	$	2.7	0.4%
Family Housing	$	1.5	0.2%
Total Discrectionary Budget Authority	$	776.6	100%



Operation and Maintenance

FY 2022 Operation and Maintenance (O&M) appropriation increased by $34.8 billion from the FY 2021 amount. Generally, funds in this category provide for the Department's day-to-day costs. This includes amounts for training and operations, pay of civilians, contract services for maintenance of equipment and facilities, fuel, supplies, and repair parts for weapons and equipment. Specifically, FY 2022 O&M appropriations included support for targeted investments in training, equipment, maintenance, munitions, modernization, infrastructure, and funding for Combatant Command exercises and engagements (e.g., *DEFENDER-Europe 22*, *Cutlass Express 2022*, and *Global Lightning 2022*) to maintain joint training capabilities, reassure allies, and provide a U.S. presence.

Military Personnel

FY 2022 Military Personnel appropriations increased by $4.5 billion over the FY 2021 amount. Generally, funds in this category provide for *military compensation* to the Active and Reserve Component members of the Military Services. This includes various types of pay, benefits, and DoD contributions to retirement savings under the *Blended Retirement System*. Specifically, FY 2022 Military Personnel appropriations included funding for a 2.7 percent military base pay raise effective January 1, 2022.

Procurement

FY 2022 Procurement appropriations increased by $12.5 billion from the FY 2021 amount. Generally, funds in this category provide for the acquisition of equipment. This includes unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. Specifically, FY 2022 Procurement appropriations included funding for the 2 Arleigh Burke-class guided missile destroyers, 2 Virginia-class fast attack submarines, 1 frigate, 2 John Lewis-class T-AO Fleet Oilers, 85 F-35 Joint Strike Fighters, and 12 F/A-18E/F fighters.

Research, Development, Test, and Evaluation

FY 2022 Research, Development, Test, and Evaluation (RDT&E) appropriations increased by $13.2 billion over the FY 2021 amount. Generally, funds in this category provide for critical investments in basic and applied technologies, advanced technology development, prototypes, design and development for major acquisition programs, and upgrades to ensure weapon systems used today—and those developed for the future—provide capabilities to maintain a technological advantage over potential adversaries. Specifically, FY 2022 RDT&E appropriations included funding that prioritized next generation aviation (e.g., the Long Range Strike Bomber and Next Generation Air Dominance) and space systems development (e.g., the Next Generation Overhead Infrared Missile Warning satellite development). RDT&E also includes strengthening homeland missile defense (e.g., the *Ground-based Midcourse Defense*), modernizing nuclear enterprise systems, and investing in key technologies that are likely to revolutionize the future of warfare (e.g., artificial intelligence, space and hypersonics, directed energy, and autonomous/unmanned systems).

Military Construction

FY 2022 Military Construction appropriations increased by $6.2 billion from the FY 2021 amount. Generally, funds in this category provide for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Specifically, FY 2022 Military Construction appropriations included funding to support the *European Deterrence Initiative* and climate-related investments within the *Energy Resilience and Conservation Investment Program*.

Revolving Funds

FY 2022 Revolving appropriations increased by $0.5 billion over the FY 2021 amount. Generally, direct appropriations to Defense Working Capital Fund activities finance two categories, costs-mobilization and Defense Commissary Agency (*DeCA*) operations. Direct appropriations into the Defense Working Capital Fund buy operating materials and supplies, or transport personnel, materiel, or other items required to satisfy a mobilization condition. Annual direct appropriations support the DeCA, to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities. When a new Defense Working Capital Fund activity is established, its founding cash corpus is established by a direct appropriation. Fuel reprogramming also contributes to the Defense Working Capital Fund. The Department transferred $2.6 billion in expired funding from the foreign currency fluctuation account into the Defense Working Capital Fund to cover increased fuel costs.

Family Housing

FY 2022 Family Housing appropriations increased by $0.1 billion over the FY 2021 amount. Generally, funds in this category provide for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (MHPI), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the United States and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

Civil Works Projects Executed by USACE

The Congress also appropriates funding directly to the U.S. Army Corps of Engineers (*USACE*) under the *Energy and Water Development and Related Agencies Appropriations Act, 2022*. For FY 2022, $8.3 billion was received, compared to $7.8 billion in FY 2021. The funding received in FY 2022 was used to execute a number of civil works projects that included supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and reducing storm and flood damage. The USACE also received supplemental funds from the Bipartisan Infrastructure Law totaling $15.0 billion and Disaster Relief Supplemental Appropriations Act, 2022 totaling $5.7 billion.

Army and Marine Corps high mobility artillery rocket systems take part in combined arms live-fire training during Exercise Balikatan at Colonel Ernesto Ravina Air Base, Tarlac, Philippines, March 31, 2022. Photo By: Marine Corps Lance Cpl. Jonathan Willcox

MANDATORY APPROPRIATIONS

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

Treasury Contribution for Military Retirement and Health Benefits

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

Trust Fund Receipts

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

Trust Fund Resources Temporarily Not Available

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

An F/A-18F Super Hornet, assigned to Strike Fighter Squadron (VFA) 103, lands on the flight deck of the Nimitz-class aircraft carrier USS George H.W. Bush (CVN 77), June 1, 2022. The George H.W. Bush Carrier Strike Group (CSG) is underway completing a certification exercise to increase U.S. and allied interoperability and warfighting capability before a future deployment. Photo by Mass Communication Specialist 3rd Class Jeremy Boan

EMERGENCY RESPONSE FUNDING

COVID-19 RESPONSE

In response to societal and economic impacts of the Coronavirus Disease 2019 (*COVID-19*) pandemic, multiple laws were passed by the Congress and signed into law by the President to assist with preventing the spread and mitigating the negative effects of the COVID-19 pandemic on individuals; businesses; and federal, state, local, and tribal government operations. Two of these laws provided supplemental appropriations to the Department totaling $10.7 billion:

- The Families First Coronavirus Response Act (*FFCRA*) was signed into law on March 18, 2020. The provisions of the FFCRA included $82.0 million in emergency supplemental O&M funding for the *Defense Health Program* to waive *TRICARE* participant copayments and cost sharing associated with COVID-19 related testing and medical visits.
- The Coronavirus Aid, Relief, and Economic Security Act (*CARES Act*) was signed into law on March 27, 2020. The provisions of the CARES Act included $10.6 billion ($6.4 billion had a one-year period of availability while $4.2 billion extended beyond one-year) in emergency supplemental funding to support the Department's efforts to prevent, prepare for, and respond to the COVID-19 pandemic domestically and internationally; it also funds existing shortfalls in TRICARE-managed care support contracts. These funds were provided across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, and Revolving Funds) and to multiple DoD Components—including the Military Services, Reserve Components, Defense Health Program, USACE, and the DoD OIG.

To facilitate the review and tracking of component requests for COVID-19 response funds, the Department required components to categorize their requests using the following cost categories based on the Department's COVID-19 response priorities (see Figure 8). In addition to these categories, DoD funding also supported the whole-of-nation *Government Response to COVID-19*.

As of September 30, 2022, the Department obligated a cumulative total of $9.9 billion or 92.5 percent of the total FFCRA and CARES Act supplemental funding.

Army Capt. Julie Lortz checks the vital signs of a patient at a rehabilitation center in Comayagua, Honduras, April 6, 2022. A medical team from Soto Cano Air Base visits the facility three times a month to provide services to the community. Photo by Air Force Tech. Sgt. Amber Carter.

Figure 8. Priority Criteria and Cost Categories for COVID-19 Response Funding Assessments

Cost Category	Description/Types of Requirements
Priority 1: Protect our People	
A. Most urgent force protection requirements *(in priority order)*	
Medical Care	• Increasing healthcare cases for eligible military members, dependents, and retirees • Procuring medical equipment (e.g., ventilators)
Diagnostics and Medical Research	• Developing vaccines and antivirals • Providing 24/7 lab operations • Procuring diagnostic tests and research activities
Medical Countermeasures	• Procuring vaccines and antivirals • Surveilling public health
Medical Countermeasures – Medical Personal Protective Equipment (PPE)	• Procuring PPE for medical personnel and disease response
Pharmaceuticals and Medical Supplies	• Procuring pharmaceuticals (e.g., albuterol, codeine, saline) and medical supplies (e.g., first aid kits, thermometers)
Non-Medical PPE	• Procuring PPE for first responders, installations, and ships
Cleaning Contracts and Non-Medical Supplies/Equipment	• Increasing cleaning contracts and biohazard mitigation (e.g., disinfectants, sanitizers, cleaning materials)
B. Longer Term Requirements	
Military Healthcare System Direct Care Capacity	• Expanding military treatment facilities to ensure maximum capacity of the direct care system • Procuring expeditionary hospital packages
Priority 2: Safeguard our National Security Capabilities	
A. Continuity of Operations – Highest immediate risk to military readiness	
DoD Operations	• Increasing operations and deployment schedules • Supporting social distancing, quarantine requirements, and following other Centers for Disease Control and Prevention guidelines
Information Technology (IT) Equipment/ Support	• Procuring IT equipment and increased bandwidth to continue operations
Reserve Component Support for the Department	• Deploying Reserve/Guard personnel for DoD missions (e.g., Training, temporary duty travel costs, non-IT equipment)
Transactions with Nonappropriated Fund Instrumentalities (NAFI)	• Supporting coronavirus-related transactions with revenue-generating NAFIs (e.g., to avoid NAFI employee layoffs at Morale, Welfare, and Recreation activities)
B. Defense Industrial Base – High Risk	
Defense Production Act Purchases	• Increasing access to materials necessary for national security and COVID-19 pandemic recovery • Providing loans to subsidize multiple federal loans to create, maintain, protect, expand, or restore domestic Industrial Base capabilities
Contract Modifications and Cost Overruns	• Modifying contracts involving price increases and cost overruns tied directly to the COVID-19 response

UKRAINE RESPONSE

In response to Russia's invasion of Ukraine, multiple laws were passed by the Congress and signed into law by the President to provide assistance in support of Ukraine. These laws provided supplemental appropriations to the Department totaling $26.6 billion, which are reflected in the FY 2022 total appropriations amounts:

- On March 15, 2022, the President signed into law the Ukraine Supplemental Appropriations Act, 2022, as part of the Consolidated Appropriations Act, 2022, which provided the Department $6.5 billion of supplemental funds across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, RDT&E, and Revolving Funds). These funds provide for U.S. European Command operations, military capabilities and equipment to Ukraine, replenish DoD stocks provided to Ukraine, and procure high-demand munitions for the U.S. and approved coalition partners.
- On May 21, 2022, the Additional Ukraine Supplemental Appropriations Act, 2022 was signed into law, which provided the Department with an additional $20.1 billion to further support Ukraine. The Act provided supplemental funds across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, RDT&E, and Revolving Funds) to replenish DoD equipment stocks sent to Ukraine via presidential drawdown authority; replace weapons or defense articles provided to the Government of Ukraine, or to foreign governments, that have provided support to Ukraine at the request of the United States; replenish funding to the Department for defense services, education, and training support; and for other Department-wide Programs that provide additional ammunition, equipment, intelligence and logistical support, supplies, and training for the Department and Ukraine.

As of September 30, 2022, the Department obligated a cumulative total of $10.3 billion, $15.8 billion remained available for future obligation, while the remaining $0.5 billion expired for new obligations. Expired appropriations remain available for valid adjustments that must be recorded beyond the year of initial obligation, as authorized by [31 U.S.C. §1553](31 U.S.C. §1553).

Top: Navy Petty Officer 3rd Class Valerie Goodblanket poses with her military working dog, Army, during a training exercise at Commander, Fleet Activities Yokosuka, Japan, Nov. 24, 2021. Photo by Taylor Curry, Navy.

Bottom: Bear Hug. Navy Seaman Reece Luginbill gives a Ukrainian child a stuffed animal during a tour of the USS Arlington as the ship conducts a scheduled port visit in Riga, Latvia, Aug. 21, 2022. The National Defense and Patriotic Foundation in Latvia hosted a camp for children of Ukrainian soldiers and coordinated the visit with the Arlington. Photo By: Navy Petty Officer 1st Class John Bellino

PERFORMANCE OVERVIEW

The Government Performance and Results Act of 1993 (GPRA), GPRA Modernization Act of 2010 (GPRAMA), and Office of Management and Budget (OMB) Circular No. A-11 require federal agencies to develop and submit an Agency Strategic Plan, in concurrence with the President's budget, no later than the first Monday in February following the year in which the term of a new President commences. The Strategic Plan—which is influenced by the President's Management Agenda and input from the Congress, OMB, Government Accountability Office (GAO), DoD OIG, and other DoD stakeholders—accomplishes numerous important management functions related to achieving the Department's mission.

Pursuant to GPRAMA reporting requirements, the DoD Director of Administration and Management (DA&M)—in his role of Performance Improvement Officer (PIO)—is responsible for developing the Department's strategic plan. During the year, the Department released the DoD Strategic Management Plan (SMP) for FY2022-FY2026, which articulates the Secretary of Defense's strategic priorities, consistent with the NDS. The focus of the DoD SMP for FY2022-FY2026 is to advance the NDS goals, in particular, building enduring advantages across the defense ecosystem, spurring innovation and supporting capabilities that our military depends and relies on.

Performance Monitoring and Tracking

The Department is a performance-based organization committed to using performance data and results to drive decision-making and accountability for achieving outcomes. The Department monitors, reviews, and reports progress on its strategic priorities, objectives, and associated performance goals and measures on a quarterly basis, following specific targets identified in the Annual Performance Plan (APP) for the upcoming fiscal year. The Defense Business Council (DBC) is the DoD's governance and integration body for matters associated with management, defense reform, performance management and improvement, defense business systems, enterprise risk management, and oversight of related resourcing decisions. The DBC, which is chaired by the Under Secretary of Defense Comptroller (USD(C)), the DA&M/PIO, and the Chief Information Officer (CIO), meets on a monthly basis and provides governance support in the preparation and monitoring of the SMP, APP, and Annual Performance Report (APR) implementation. The DBC also conducts quarterly progress reviews of Agency Priority Goals (APG) and monitors overall SMP implementation, including how the Department is addressing institutional management priorities. In addition to conducting periodic data-driven reviews of strategic priorities' metrics, the DBC establishes and evaluates select functional metrics, known as "business health metrics." These performance measures provide a comprehensive view of the "health" of enterprise management operations for the Department.

Advana, the Department's authoritative enterprise data repository, provides a common operational and visual interpretation data model of business management and policy based on existing and planned performance measures. The Department leverages Advana's data management tools to integrate data-driven progress reviews of the strategic priority metrics and business health metrics to ensure reliable and authoritative data is accessible to senior leaders. Advana is used to provide a consistent methodology to define, identify, track, and report existing and planned opportunities for performance improvement that directly or indirectly contribute to the SMP and NDS implementation.

The Department employs hundreds of other performance measures to help assess progress in key areas such as performance improvement initiatives, acquisition performance, military readiness, audit remediation, and business process improvement. Together, this suite of analytics capabilities helps DoD senior leaders to manage the entire breadth and scope of the Department's mission and guide the DoD Components in the effective and efficient use of resources. Performance-based data contributes to support multiple decision-making and accountability efforts such as Secretary-level management decisions, budget justification exhibits, and a wide range of reports to Congress to facilitate proper legislative oversight.

Strategic Goals and Objectives

The SMP for FY2022-FY2026 is the result of a collaborative effort among subject matter experts across the Department and aligns every strategic objective to a strategic goal (see Figure 9). While providing a path for the Department to accomplish its goals, the SMP also encompasses the APP for FY 2023 and the APR for FY 2021. The FY 2023 APP further defines specific performance goals and measures along with targets and milestones to guide the Department's business operations. The APP must cover each program activity of the Department set forth in the budget as defined by GPRAMA, while the APR consolidates prior year performance results from all the DoD Components and communicates progress toward achieving the priorities and objectives described in the SMP and APP. Complete FY 2022 performance results through fiscal year-end will be published in the FY 2022 APR, which will be released with the President's Budget in February 2023, and made available to the public through the Office of the DA&M's website at https://dam.defense.gov/performance.

The Thunderbirds, the Air Force's flight demonstration squadron, fly over Indianapolis Motor Speedway during the Indy 500 in Indianapolis, Ind., May 28, 2022. Photo by Air Force Staff Sgt. Andrew D. Sarver

Figure 9. DoD Strategic Goals and Objectives

Strategic Goals	Strategic Objective
GOAL 1 - Making the Right Technology Investments and Transforming the Future Force The Department will invest in redirecting resources toward high-priority platforms to build a Joint Force that is more lethal, resilient, agile, and responsive over time at a speed and scale that matches a dynamic threat landscape. To build unity within, the Department will continue to foster security ties among allies and partners and find new ways to link defense industrial bases, secure supply chains, and co-produce technologies to boost collective military advantages.	1.1: Build a strong foundation for future science and technology by investing in the Department's workforce, laboratory, and testing infrastructure 1.2: Invest in the Department's critical technology areas to build an enduring advantage for the U.S. Military 1.3: Drive competitive advantage through capability delivery 1.4: Modernize and sustain the nuclear deterrent and protect against chemical and biological threats 1.5: Optimize to improve capabilities and drive efficiencies
GOAL 2 - Strengthen Resilience and Adaptability of Our Defense Ecosystem Combating climate change is a vital component of enduring advantages and the Department is committed to strengthening resilience in installations around the country and abroad; investing in more fuel-efficient platforms to alleviate the logistics burden of the Joint Force; and pacing the commercial market's move toward electrification when applicable. The Department aims to adapt and fortify the defense ecosystem by prioritizing joint efforts with a wide range of domestic and international partners and by fostering supply chain resilience, including making use of the Defense Production Act Title III, the Industrial Base Analysis Sustainment Programs, and maximizing "Made in America" manufacturing as appropriate.	2.1: Shape a 21st century Defense Industrial Base* 2.2: Deliver sustainable logistics to support DoD 2.3: Fortify and protect DoD installations through adaptation, mitigation, and resilience* 2.4: Enhance cybersecurity 2.5: Work in partnership with our Nation, our allies, and our partners 2.6: Increase the resiliency of C3 capabilities

Airmen and soldiers play soccer with residents of Chabelley Village in Djibouti, June 9, 2022. Photo by Air Force Senior Airman Josiah Meece. *Photo by Air Force Senior Airman Josiah Meece.*

Strategic Goals	Strategic Objective
GOAL 3. Taking Care of Our People and Cultivating the Workforce We Need The Department will focus on attracting, recruiting, retaining, and training its workforce to ensure the Total Force is diverse, inclusive, and has the right tools, including personnel systems and analytics, to support workforce forecasting and development and keep pace with the evolving threats to our Nation. Focusing on readiness will also require the Department to protect the health, safety, and welfare of the Force by ensuring a safe and supportive environment through preventing crime and supporting victims, and striving to counter extremist acts. The Department will continue to modernize our healthcare capabilities through an integrated and transformed Military Health System, with a state of the art electronic health record, to offer the Total Force and military families improved readiness, better health, better care, and lower cost.	3.1: Grow our talent to shape an appropriately skilled, resilient and ready future workforce* 3.2: Build a safe and supportive environment for the Total Workforce 3.3: Address the needs of families 3.4: Mitigate COVID-19 3.5: Increase the effectiveness of defense healthcare
GOAL 4. Address Institutional Management Priorities The Department remains diligent in its audit remediation efforts which will foster an environment that features fewer more capable and secure systems, better data, adherence to generally accepted accounting principles (GAAP), a proficient analytical workforce, and improved transparency that enables faster insights for mission support. When the DoD achieves audit, the Department will operate in a secure environment with confidence in the integrity of the data used for financial reporting and decision-making across the Department.	4.1: Deliver excellent, equitable, and secure DoD services and customer experiences 4.2: Establish the Chief Digital and Artificial Intelligence Office to accelerate the Department's adoption of data, analytics, and artificial intelligence 4.3: Optimize budget to execution 4.4: Foster a high integrity funds control environment 4.5: Accelerate the path to an unmodified audit opinion 4.6: Optimize a secure systems environment

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

Sailors assigned to Naval Special Warfare Group 8 display the flag while performing dive operations from the fast attack submarine USS New Mexico in the Atlantic Ocean, June 19, 2022. Photo By: Navy Chief Petty Officer Christopher Perez

Some performance goals are considered APGs, which are intended to highlight target priority policy and management areas in which agency leaders plan to achieve near-term performance advancement through focused senior leadership attention (see Figure 10). The anticipated timeline to accomplish these goals is two years. A senior leader within the Department is assigned to each APG and is responsible for updating the DBC on a quarterly basis.

Figure 10. DoD Level Agency Priority Goals

Strategic Objective	Agency Priority Goal (FY2022 - FY2023)
2.1: Shape a 21st Century Defense Industrial Base	Ensure Supply Chain Resilience
2.3: Fortify and protect DoD installations through adaptation, mitigation, and resilience	Reduce Climate Impacts to DoD Installations
3.1: Grow our talent to shape an appropriately skilled, resilient and ready future workforce	Improve Recruitment and Retention of the Civilian Workforce

Financial Management Strategy Goals and Objectives

During the year, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) published the first Financial Management (FM) Strategy to unify the FM workforce in achieving common goals throughout the DoD FM community. The FM Strategy for FY2022–FY2026 aims to simplify and standardize DoD's FM environment to accelerate budget confidence, operational effectiveness, cybersecurity protection, auditability, transparency, and affordability. This strategy incorporates input from leaders, budget analysts, data analysts, accountants, and auditors throughout the Department as well as partners of the FM community. Many goals and objectives from the FM Strategy are developed in conjunction with related objectives found within the SMP, as the strategic objectives and performance goals are the result of a collaborative effort with subject matter experts.

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

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

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

FORWARD LOOKING INFORMATION

Given the breadth and complexity of its mission, the Department continues to face myriad emerging risks and challenges. Nevertheless, the Department is committed to ensuring a clear-eyed appraisal of these risks and identifying every opportunity to optimize operational performance.

Space Force Tech. Sgt. Michelle Holt, a military training instructor assigned to the 1st Delta Operations Squadron, stands in front of graduating guardians during a basic military training coining ceremony at Joint Base San Antonio, June 22, 2022. Photo by Ethan Johnson, Space Force.

The aggression from Russia and security risks posed by China necessitate sustained vigilance, as well as deliberate prioritization of resources and attention.

Recent events in Eastern Europe highlight Russia's willingness to use its military to achieve its objectives. The Russian aggression in Ukraine emphasizes the need to ensure U.S. Joint Forces, allies, and partners are an enduring strength for the United States. Furthermore, the Department views the People's Republic of China (PRC or China) as the pacing challenge, and the only competitor able to combine its economic, diplomatic, military, and technologic powers to mount a sustained challenge to the international system. The PRC is increasingly clear in its ambitions and intentions, as it seeks to reshape the international order and develop a world-class military which, within the context of its national strategy, likely indicates a desire to develop a military that is equal or superior to that of the United States or any other power viewed as a threat. To counter both the aggression coming out of Russia and the security risks posed by China, the Department continues to focus on deterring and denying potential aggression against allies and partners. This requires the Department to operate forces and synchronize broader U.S. Government efforts by using such measures as integrated deterrence, campaigning, and building enduring advantages.

Integrated Deterrence

The combat credibility of the U.S. military to fight and win in defense of our Nation's interests is a cornerstone of integrated deterrence, which entails working seamlessly across domains and theaters throughout the spectrum of conflict while in close cooperation with federal agencies, allies, and partners to ensure the U.S. military makes the cost of aggression clear. This credibility is essential today and into the future across the air, sea, land, cyber, and space domains. The Department will continue to collaborate with North Atlantic Treaty Organization (NATO) Allies and partners to reinforce a robust deterrence in the face of our enemies.

The Department's FY 2023 budget request includes critical programs to modernize and improve the combat capability of the Joint Force, including:

- $34.4 billion to recapitalize the nuclear triad and support nuclear command, control, and communications systems, including the Ground Based Strategic Deterrent (Sentinel) intercontinental ballistic missile; the Long Range Stand Off cruise missile; the COLUMBIA-class ballistic missile submarine; Trident II submarine-launched ballistic missile modifications; B-21 bomber; and F-35 dual-capable aircraft.
- $8.1 billion for National Security Space Launch, Global Positioning System, and space-based missile warning systems. Resilient space-based capabilities are critical to enabling Joint All Domain Command and Control to ensure U.S. Space Command—and their joint and coalition warfighting partners—have the capability to operate in and through contested domains.

Campaigning

Our competitors are increasingly undertaking activities designed to erode U.S. deterrence and advance their own interests. Campaigning is tying together the breadth of United States as well as allied and partner defense activities to deter aggression and resist an adversary's gray zone activities by operating forces, synchronizing broader U.S. Government efforts, and gaining advantage on our terms. Ensuring the Joint Force is ready now across the full battle space in which competitors operate is central to campaigning. The use of campaigning will strengthen deterrence and enable the United States to gain advantages against the full range of a competitor's coercive actions. The Department's FY 2023 budget invests heavily into readiness, including:

- The Department of the Army is investing $29.6 billion in its core readiness and readiness enablers accounts, which is an increase of $0.9 billion from FY 2022 enacted levels—primarily due to increased Home Station Training readiness programs, including the Pacific Deterrence Initiative and European Deterrence Initiative. The FY 2023 readiness accounts include $12.9 billion for home station training for ground maneuver forces and $3.5 billion for aviation readiness.
- The Department of the Navy (DON) is investing $51.7 billion, an increase of $2.8 billion above FY 2022 enacted levels, in aviation, ship, weapons support, expeditionary forces, and combat support readiness activities. The DON continues to implement the Optimized Fleet Response Plan and reduce its long-term maintenance backlog by investing in ship depot maintenance and procurement appropriations to expand the U.S. Pacific Fleet maintenance pilot program to U.S. Fleet Forces Command. Further, the DON is investing in aviation readiness to sustain proficiencies intending to improve mission capable rates across the fleet.
- The Department of the Air Force is investing $38.7 billion in core readiness and readiness enabler activities. The Air Force's $28.9 billion budget request for flying hours and weapon system sustainment is an increase of $0.6 billion above FY 2022 enacted levels. For weapon system sustainment, the $18.1 billion request is a $1.3 billion increase from FY 2022 enacted levels and is being invested to maintain the inventory of aircraft, space systems, and other weapon systems.

Building Enduring Advantages

The strategy's third approach, to support both integrated deterrence and campaigning, is to build enduring advantages across the Department's enterprise. This effort begins with investments to the Department's most critical asset, its people. Building enduring advantages also requires the Department to innovate and modernize, invest in the Nation's defense industrial base, and combat climate change. The Department's FY 2023 budget request for building enduring advantages includes the following:

- $6.5 billion over the FY 2022 enacted level in military pay and benefits to retain the best of today's force as the Department creates new opportunities for advancement; $4.2 billion over the FY 2022 enacted level in civilian pay and benefits to support a properly sized and highly capable civilian workforce that is aligned to mission and workload, and is agile in supporting the Department's mission.
- $16.5 billion of Research, Development, Test, and Evaluation (RDT&E) funding dedicated to maturing artificial intelligence and 5G programs.
- $154.0 million to expand required industrial capabilities to support hypersonic weapons such as high temperature composites, advanced propulsion systems, and navigation and guidance components.

The global climate crisis may increase the frequency and scale of natural disasters with the potential to disrupt DoD operations, pose danger to DoD property and personnel, and necessitate additional funding to support response and recovery efforts.

Climate change is reshaping the geostrategic, operational, and tactical environments with significant implications for U.S. national security and defense. Increasing temperatures; changing precipitation patterns; and more frequent, intense, and unpredictable extreme weather conditions caused by climate change are exacerbating existing risks and creating new security challenges for U.S. interests. Combating this is a vital component of building enduring advantages. By transforming the context in which we operate, our climate change investments improve our readiness and have the potential to decrease demands on the Joint Force. DoD's FY 2023 budget request invests more than $3 billion to create platform efficiencies, deploy new technologies, and harden our critical infrastructure—fully aligned with our warfighting needs and mission objectives.

Debra, a military working dog, wears specialized eye protection while providing security at Patrick Space Force Base, Fla., Aug. 23, 2022. Photo by Air Force Senior Airman Samuel Becker.

The risks of climate change to the Department's strategies, plans, capabilities, missions, and equipment, as well as those of U.S. allies and partners, are growing. Global efforts to address climate change—including actions to address the causes as well as the effects—will influence DoD strategic interests, relationships, competition, and priorities. To train, fight, and win in this increasingly complex environment, the Department will consider the effects of climate change at every level of the DoD enterprise.

The Department's portion of the FY 2023 budget request makes significant new investments that will make installations and operations more resilient to climate change and increase operational capability. Below is an overview of the Department's portion of the budget request related to climate change initiatives:

- $1,973.8 million investment for installation resiliency and adaptation focused on military facilities to withstand harsh weather conditions and ensure the Department can leverage private sector investments to improve energy and mission resilience.
- $247.1 million in operational energy and buying power to improve the efficiency of operational platforms while increasing their capability and mitigating logistics risk.
- $807.0 million in science and technology investments, which includes hybrid tactical vehicles, to enhance capability like extended range and persistence and provide silent watch. It also includes investments in new technologies like blended wing body aircraft, which have the potential to increase range and payload while improving efficiency.
- $27.6 million in contingency preparedness that includes incorporating climate risk scenarios in war games and exercises, humanitarian assistance, and disaster relief and defense support to civil authorities' activities.

Army Sgt. 1st Class Brandt Ireland, a member of the U.S. Special Operations Command team, competes in cycling during the 2022 DOD Warrior Games in Orlando, Fla., Aug. 22, 2022. More than 200 wounded, ill and injured service members and veteran athletes are competing in 12 adaptive sporting events during the games. Photo by Roger L. Wollenberg, DOD.

Sexual Harassment, Sexual Assault and Domestic Violence threaten the physical and mental well-being of our Total Force.

The prevention of sexual assault and harassment is key to preserving readiness in support of a resilient and cohesive force. Sexual assault and harassment are not only damaging to individual Service members, but these behaviors also harm our military readiness and must be eradicated. The Total Force—active and reserve Service members, and the civilian employees and contractors that support them—deserve to work in an inclusive culture built on dignity and respect. Ridding the Department of sexual assault and harassment requires courage and commitment from leaders at all organizational levels.

The Department is implementing numerous recommendations from an Independent Review Commission (IRC) that finished its work last year. The Secretary chartered an IRC on Sexual Assault in the Military to examine the DoD's sexual misconduct prevention and response efforts, make recommendations to address gaps in programming or policy, and strengthen existing approaches. The IRC returned over 80 recommendations to advance four lines of effort: Accountability, Prevention, Climate and Culture, and Victim Care. The National Defense Authorization Act (NDAA) for FY 2022 enacted a revised version of the most significant accountability recommendation into law. For example, these reforms remove prosecutions of sexual assault and related crimes from the chain of command. The Department is in the process of implementing that major reform, which will take effect on December 27, 2023.

The FY 2023 President's Budget requests approximately $500 million to implement the recommendations of the IRC. Examples include the establishment of a violence prevention workforce and enabling service members who experience sexual harassment to access services from a sexual assault victim advocate. The Department has developed a Prevention Workforce Model and has credentialed the initial cohort of specialized prevention personnel—the centerpiece to establishing an effective integrated prevention system that defeats multiple readiness detracting behaviors. The FY 2023 President's Budget will not only sustain momentum for these pivotal efforts, but also fund the hiring of the first-ever Department-wide prevention workforce. Funding will also support fundamental changes to the military justice paradigm, including a new oversight office and key specialized personnel.

In addition to the IRC's recommendations, the Department continues to implement a *Harassment Prevention Strategy* for the Armed Forces. The intent of the strategy is to achieve unity of purpose in harassment prevention across the entire Department, including at the Military Service Academies. The strategy involves a five-year plan to establish a Department-wide prevention system that facilitates data-informed actions and allows for integration of prevention activities while leveraging existing capabilities where possible. Over the long term, the DoD Harassment Prevention Strategy aims to prevent or decrease the prevalence of all forms of harassment, victimization, and perpetration. This will, in turn, increase readiness and decrease the likelihood of self-directed harm and prohibit abusive or harmful acts. The budget request reflects the resources necessary for full implementation and further enhancement of the strategy.

Increased cyber-attacks may leave the DoD information network vulnerable to unauthorized access by internal and external parties.

The Department operates with five cyberspace objectives to reduce risk to the Nation and successfully achieve its mission: improving cyber resiliency, enhancing U.S. military advantage, defending critical infrastructure, securing DoD information and systems, and expanding cyber cooperation. This strategy aligns with the 2022 National Defense Strategy (NDS) approach of building enduring advantages across the Department's enterprise.

The $11.2 billion cyberspace activities budget for FY 2023 builds on the important initiatives established in FY 2021 and provides for a stronger cyber posture, which entails cyberspace activities, such as the Department's cybersecurity, cyberspace operations, and cyber research and development programs. The resources in the FY 2023 budget request will support the collection and analysis of cyberspace critical information, enable U.S. cyber forces to prepare for and conduct offensive and defensive cyber effects operations, and conduct joint operations and training in support of the NDS. In addition, the budget will accelerate the Department's efforts to develop advanced modeling and simulation techniques, including digital twins that integrate models of cyberspace with those of the physical domains to understand complex interactions, emergent behaviors, and operational impacts of cyberspace operations.

Budget impasses and continuing resolutions negatively impact DoD planning and readiness.

The Department relies on predictable and timely appropriations to conduct long-term planning for continued recovery of military readiness and other key capabilities. The absence of fully enacted appropriations at the beginning of a fiscal year prevents the Department from implementing new operational improvement initiatives, restricts the operations of certain civilian and Reserve Component personnel, and affects the availability of funding for critical weapon systems acquisition and personnel compensation. To mitigate this risk, the Department closely monitors the appropriation process throughout the year and develops contingency plans to facilitate the continuation of essential operations in the absence of available appropriations.

The need to distribute CARES Act funding quickly exposes the Department to the risk of improper payments and fraud.

The urgency to disburse funds that support the deployment of DoD resources to areas of need may result in improper payments or fraudulent activities, which the current processes and internal controls may fail to identify. To mitigate this risk, the Department leadership issued multiple memoranda, which have been implemented across the Department, to enforce and emphasize the importance of monitoring and reporting CARES Act activities. In addition, the OUSD(C) led training sessions and issued budget execution guidance and templates to educate the DoD risk management and internal control community on the increased risks related to the distribution of contingency funds.

GAO High Risk List

The Government Accountability Office (GAO) issues a biennial report listing programs and operations across the Federal Government that it determines to be high risk due to vulnerabilities to fraud, waste, abuse, and mismanagement or that need broad transformation or reform. The FY 2021 GAO High Risk Series report (*GAO-21-119SP*) lists 36 high risk areas, five of which are specifically related to the Department:

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

The Department has either "met" or "partially met" each of the five evaluation criteria (Demonstrated Progress, Leadership Commitment, Capacity, Action Plan, and Monitoring) in all of these high risk areas. Additionally, the GAO narrowed its scope in DoD Contract Management as the Department made significant progress in rebuilding its acquisition workforce.

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

FINANCIAL HIGHLIGHTS AND ANALYSIS

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

Financial Performance Summary

The following table summarizes the Department's condensed FY 2022 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see Figure 11).

Figure 11. Financial Performance Summary (Unaudited)

Dollars in Billions	FY 2022	Restated FY 2021	Increase/(Decrease)	
			$	%
COSTS				
Gross Program Costs	$1,040.9	$893.7	$147.2	16.5%
Less: Earned Revenue	(219.1)	(155.3)	(63.8)	41.1%
Net Change of Operations	$821.8	$738.4	$83.4	11.3%
NET POSITION				
Assets:				
Fund Balance with Treasury	$692.9	$623.2	$69.7	11.2%
Investments, Net	1,647.0	1,442.0	205.0	14.2%
Accounts Receivable	12.4	10.8	1.6	15.1%
Other Assets *	17.7	24.2	(6.5)	-26.8%
Inventory and Related Property, Net	337.1	327.0	10.1	3.1%
General Property, Plant and Equipment, Net	814.7	815.9	(1.2)	-0.2%
Total Assets	**$3,521.8**	**$3,243.1**	**$278.7**	**8.6%**
Liabilities:				
Accounts Payable	$41.2	$42.5	$ (1.3)	-2.8%
Other Liabilities **	38.2	40.4	(2.2)	-5.5%
Federal Employee and Veteran Benefits Payable	3,578.6	2,823.1	755.5	26.8%
Environmental and Disposal Liabilities	90.6	82.0	8.6	10.5%
Total Liabilities	**$3,748.6**	**$2,988.0**	**$760.6**	**25.5%**
Net Position (Assets minus Liabilities)	**$(226.8)**	**$255.1**	**$(481.9)**	**-188.9%**

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

** Other Liabilities includes Other Liabilities, Debt, and Loan Guarantee Liability

At Attention. Air Force Staff Sgt. Naujy Serrano stands at attention before a change of command ceremony at Royal Air Force Alconbury, England, June 22, 2022. Photo By: Air Force Staff Sgt. Eugene Oliver

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

Balance Sheet

Statement of Net Cost

Statement of Changes in Net Position

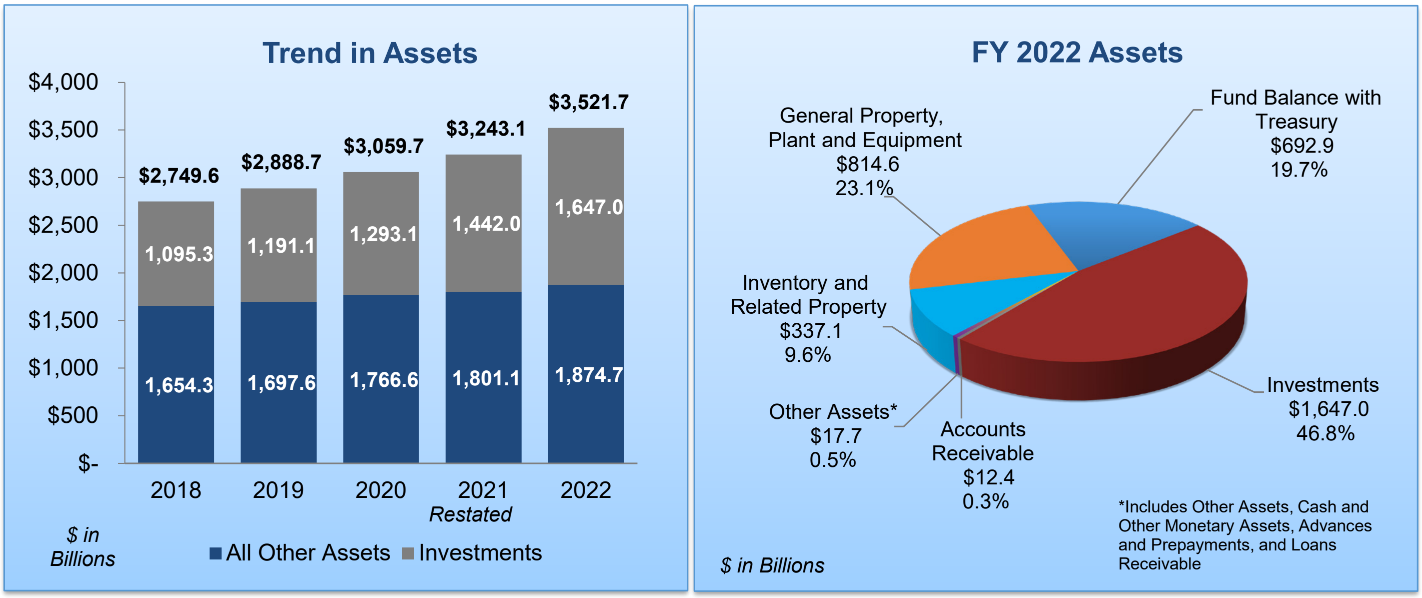
Statement of Budgetary Resources

Balance Sheet

The Balance Sheet, which represents the Department's financial position as of September 30, 2022, and September 30, 2021, reports economic benefits controlled by the Department (Assets); probable future outflows or other sacrifices of resources, as a result of past transactions or events (Liabilities); and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budgetary resources, improvements in internal controls, and implementation of more disciplined accounting and reporting practices throughout the organization.

As of September 30, 2022, the Department's $3.5 trillion in assets predominantly comprises Investments; General Property, Plant, and Equipment (PP&E); Fund Balance with Treasury (FBwT); and Inventory and Related Property (I&RP), which together represented 99.2 percent of the Department's assets (see Figure 12).

Figure 12. Summary of Total Assets (Unaudited)



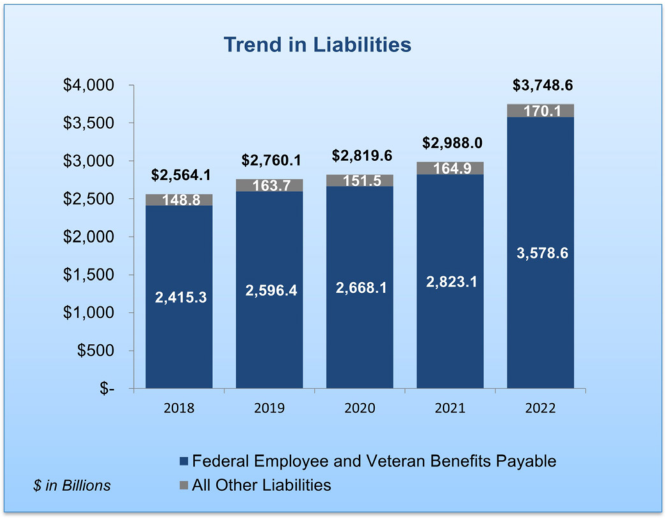
The Department restated the FY 2021 General PP&E, Accounts Receivable, and I&RP balances to correct errors, resulting in a $5.8 billion increase in Total Assets as compared to the balance reported in FY 2021. See *Note 28, Restatements*, in the Financial Section for more information.

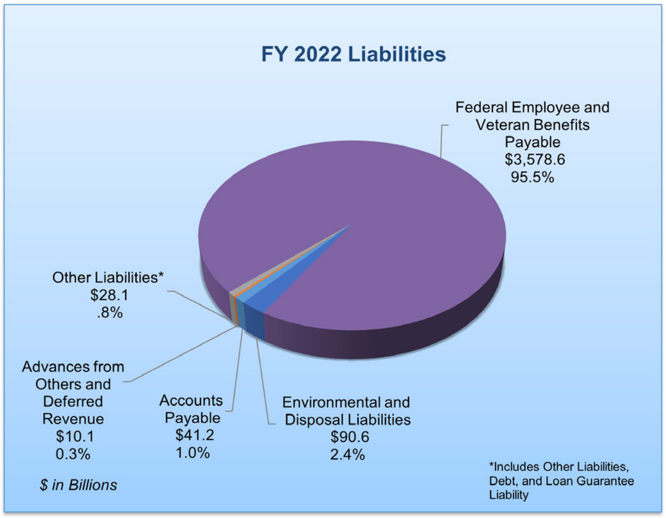
During FY 2022 the Department's total assets increased by $278.7 billion (8.6 percent) over the FY 2021 (restated) amount, primarily attributable to the following changes:

- Investments in securities issued by the Treasury increased by $205.0 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See *Note 5, Investments and Related Interest*, in the Financial Section for more information.
- FBwT increased $69.7 billion, primarily as a result of increases in budgetary resources received over recent years. See *Note 3, Fund Balance with Treasury*, in the Financial Section for more information.

As of September 30, 2022, the Department's $3.7 trillion of liabilities predominantly comprises Federal Employee and Veteran Benefits Payable, which represented 95.5 percent of the Department's liabilities (see Figure 13). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

Figure 13. Summary of Total Liabilities (Unaudited)





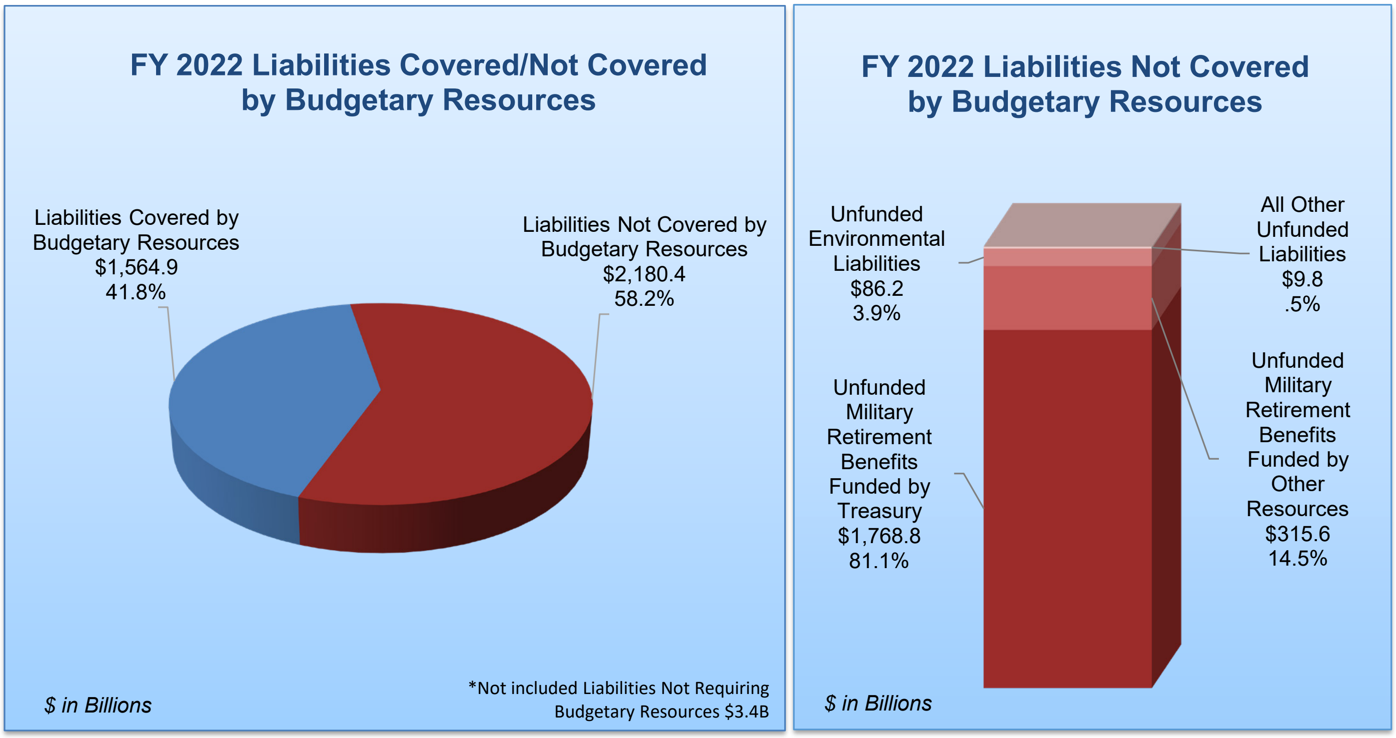
The Department restated the FY 2021 Accounts Payable balances to correct errors, resulting in a $0.2 billion increase in Total Liabilities as compared to the balance reported in FY 2021. See *Note 28*, *Restatements*, in the Financial Section for more information.

During FY 2022, the Department's total liabilities increased by $760.6 billion (25.5 percent) over the FY 2021 (restated) amount, primarily attributable to the following changes:

- The Federal Employee and Veteran Benefits Payable increased by $755.5 billion, primarily attributable to a $584.7 billion increase in the actuarial liability the Military Retirement Fund and a $137.7 billion increase in the actuarial liability in the Medicare-Eligible Retiree Healthcare Fund. The actuarial adjustment considers expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. See *Note 13, Federal Employee and Veteran Benefits Payable*, in the Financial Section for more information.

As of September 30, 2022, $2.2 trillion (58.2 percent) of the Department's liabilities were not covered by budgetary resources (see Figure 14). Of this amount, $1.8 trillion (81.1 percent) was related to Unfunded Military Retirement Benefits to be funded by the Treasury. See *Note 11, Liabilities Not Covered by Budgetary Resources*, in the Financial Section for more information.

Figure 14. Liabilities Covered/Not Covered by Budgetary Resources (Unaudited)



Statement of Net Cost

The Statement of Net Cost presents the net cost of the Department's major programs for the years ended September 30, 2022, and September 30, 2021. The statement reports total expenses incurred less revenues received from external sources to finance those expenses (e.g., investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities). Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant, and equipment. See *Note 24, Reconciliation of Net Cost to Net Outlays*, in the Financial Section for additional information.

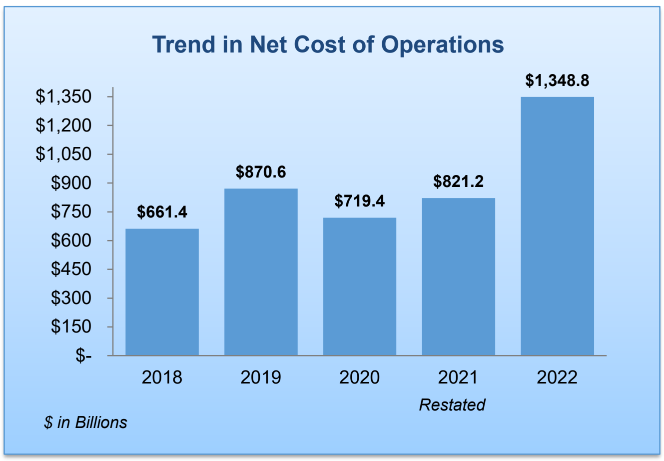
The Department categorizes the various costs incurred during the fiscal year into seven major programs:

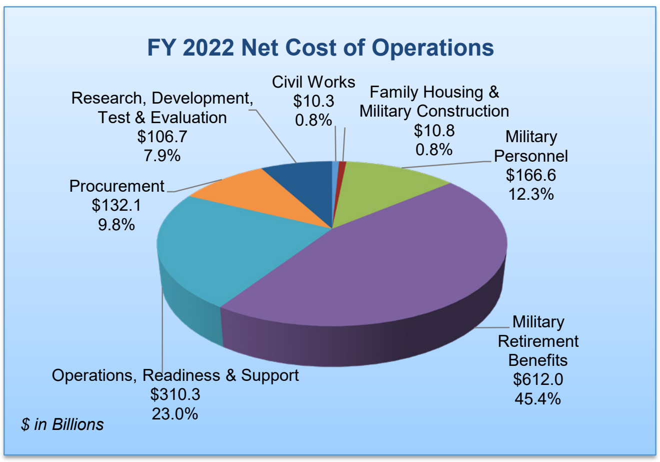
- **Military Retirement Benefits:** This program includes expenditures that cover eligible members' retirement pay, disability retirement pay, and healthcare benefits for Medicare-eligible members and their dependents or survivors.
- **Civil Works:** This program includes expenditures related to Energy and Water Development programs executed by the U.S. Army Corps of Engineers (USACE) that primarily fulfill three mission areas: commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration.
- **Military Personnel:** This program includes expenditures for military compensation to the Active and Reserve members of the Military Services. Other compensation includes a variety of expenditures, such as housing, subsistence, and other allowances; special pay categories (e.g., incentive pay for hazardous duty); and contributions from the Uniformed Services for future benefits under the Medicare-Eligible Retiree Health Care Fund.

- **Operations, Readiness, and Support:** This program includes expenditures providing benefits that are derived for a limited period, such as civilian salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, purchases from Defense Working Capital Funds (e.g., spare parts), and day-to-day base operations.
- **Procurement:** This program includes expenditures for the acquisition of items providing long-term benefits such as costs necessary to bring the items to the condition and location for their intended operational use.
- **Research, Development, Test, and Evaluation:** This program includes expenditures related to efforts that increase the Department's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These expenditures include all costs necessary to develop and test prototypes, including purchases of end-items, weapons, equipment, components, and materials, as well as the performance of services.
- **Family Housing and Military Construction:** This program includes expenditures associated with purchasing, improvements, and support services for property that house Military Service members and their families. Costs are also related to planning, designing, constructing, altering, and improving the Department's worldwide portfolio of military facilities.

The major programs composing the greatest share of the Department's $1.3 trillion FY 2022 Net Cost of Operations were Military Retirement Benefits; Operations, Readiness, and Support; Military Personnel; Procurement; and Research, Development, Testing, and Evaluation, which together represented 98.4 percent of the Department's Net Cost of Operations (see Figure 15).

Figure 15. Summary of Net Cost Operations (Unaudited)





The Department restated the FY 2021 General PP&E, Accounts Receivable, I&RP, and Accounts Payable balances to correct errors, resulting in a $2.2 billion increase in Net Cost as compared to the balance reported in FY 2021. See *Note 28, Restatements*, in the Financial Section for more information.

During FY 2022, the Department's Net Cost of Operations increased $527.6 billion (64.2 percent) over the FY 2021 (restated) amount, primarily attributable to Military Retirement Benefits increase of $449.4 billion due to the following changes:

- $409.2 billion increase in Actuarial Assumptions Key changes in long-term economic assumptions underlying the actuarial calculations led to the substantial increase in FY 2022. Long-term economic assumptions for inflation, salary, and interest are set per *Statement of Federal Financial Accounting Standards 33* guidance.
- $86.1 billion increase in Gross Cost is mainly attributable to a $72.6 billion transfer-in of the Coast Guard plan amendment.

- Offset by $45.9 billion in Earned Revenue. Earned Revenue primarily increased due to a $36.2 billion increase in interest revenue related to investments of the Military Retirement Fund and the Medicare Eligible Retiree Health Care Fund.

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

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. In FY 2022, the Department reported $1.5 trillion in total budgetary resources (see Figure 16).

Figure 16. Composition of DoD Total Budgetary Resources (Unaudited)

Description	FY 2022 ($ in Billions)	Restated FY 2021 ($ in Billions)	FY 2020 ($ in Billions)	FY 2019 ($ in Billions)	FY 2018 ($ in Billions)
Appropriations (Discretionary and Mandatory) Reported on SBR	$1,019.5	$905.1	$914.2	$874.4	$863.6
Unobligated Balances from Prior Year Budget Authority	213.8	211.2	213.3	226.8	181.0
Spending Authority from Offsetting Collections	150.3	153.7	130.3	113.0	119.4
Contract Authority	81.2	74.0	78.7	86.8	88.4
Total Budgetary Resources	$1,464.8	$1,344.0	$1,336.5	$1,301.0	$1,252.4

Of the $1.5 trillion in Total Budgetary Resources for FY 2022, $1.2 trillion was obligated. The remaining Unobligated Balance of $227.7 billion relates primarily to appropriations available to cover multi-year investment projects requiring additional time for delivery of goods and services.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2022, the amount of the Expired Unobligated Balance, End of Year increased from $20.8 billion in FY 2021 to $22.3 billion in FY 2022, an increase of $1.5 billion. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds, which may result in a violation of the Antideficiency Act. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments in accordance with 31 U.S.C. §1553.

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

AUDIT OVERVIEW

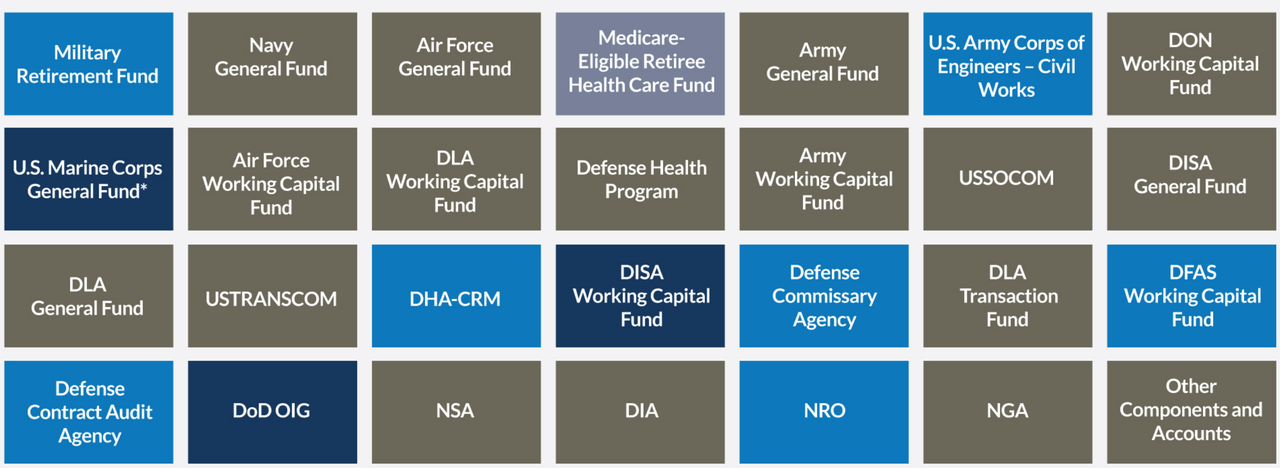
The annual financial statement audits are vital to the Department's data transformation and business reform efforts. They provide objective, independent assessments of the Department's internal controls, financial reporting practices, and reliability of financial information. Auditor findings and recommendations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

During FY 2022, OUSD(C) increased its collaboration with other audit stakeholders such as the Office of the Chief Information Officer (OCIO), the Office of the Under Secretary of Defense (Acquisition and Sustainment) (OUSD(A&S)), and the Military Departments. Department-wide collaboration is evident in the material weakness working groups and functional councils and the ongoing development of material weakness remediation strategies. This collaboration has increased the understanding of the Secretary's audit priorities and assisted in accelerating the development and adoption of remediation solutions. The outcomes of the audit remediation efforts will include better support for the warfighter, preservation of military advantage, greater financial data integrity, enhanced demonstration of stewardship, and increased transparency for Congress and the American people.

FY 2022 Audit Results

The Department completed its fifth annual consolidated financial statement audit covering approximately $3.5 trillion of the Department's total assets, involved approximately 1,600 auditors, and included nearly 970 site visits (virtual and in-person). The audit comprised 27 standalone audits conducted by independent public accountants (IPAs) and a consolidated Agency-wide audit performed by the Office of Inspector General of the DoD (DoD OIG) (see Figure 17). The DoD OIG issued a disclaimer of opinion on the Department's FY 2022 consolidated financial statements, meaning it was unable to obtain sufficient appropriate audit evidence on which to base an opinion. The Department's leadership fully expected these results, as receiving a disclaimer of opinion is consistent with the experiences of other large and complex federal agencies during their initial years under audit. See the DoD OIG's independent audit report in the Financial Section.

Figure 17. FY 2022 Audit Results



*The U.S. Marine Corps General Fund is undergoing a two-year audit cycle, which will conclude in November 2023. In Fiscal Year (FY) 2022, the U.S. Marine Corps General Fund did not receive an audit opinion from an Independent Public Accountant (IPA) firm. In FY 2021, U.S. Marine Corps General Fund received a disclaimer of opinion from an IPA firm.

Key: Unmodified | Qualified | Outstanding Opinion | Disclaimer

Of the 27 component standalone audits, 7 received unmodified opinions (i.e., auditors determined the financial statements were presented fairly and in accordance with GAAP), 1 received a qualified opinion (i.e., auditors concluded there were misstatements or potentially undetected misstatements that were material but not pervasive to the financial statements), and 16 received disclaimers of opinion. The standalone audits for the Office of Inspector General of the DoD (DoD OIG) and the Defense Information Systems Agency (*DISA*) Working Capital Fund are scheduled to conclude after the date of this publication. The U.S. Marine Corps is undergoing a two-year audit cycle, which will be completed in November 2023. The independent auditor's report for each standalone audit is available in the respective component's financial report accessible on the *Agency Financial Report website*. Other Components and Accounts are not undergoing a standalone audit as they are audited by the DoD OIG as part of the consolidated audit.

Multiple components have consistently obtained an unmodified opinion; for instance, this was the 13th for the Defense Health Agency (*DHA*)–Contract Resource Management, the 15th for the USACE–Civil Works, the 23rd for the Defense Finance and Accounting Service (*DFAS*) Working Capital Fund, and the 28th for the Military Retirement Fund. In addition to issuing an opinion, auditors identify material weaknesses and issue Notices of Findings and Recommendations (NFRs). A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected, on a timely basis. In FY 2022, the DoD OIG identified three new Agency-wide material weaknesses and consolidated six material weaknesses into three, for a net change of zero as compared to FY 2021. See the summary of DoD OIG-identified material weaknesses in the Other Information section.

As of November 15, 2022, the DoD OIG and the IPAs issued more than 1,950 NFRs for the FY 2022 audit at the Department-wide and component levels across the consolidated and standalone audits. The Department anticipates receiving additional NFRs as auditors finish compiling their findings and developing the related NFRs. To address NFRs, components are responsible for developing corrective action plans (CAPs) that provide information on the root-cause of deficiencies, establish milestones, assign responsibilities for remediation, and project a completion date for the corrective action.

Separately, the Department manages the audit of and prepares the Security Assistance Accounts (SAA) financial statements, which include the Foreign Military Sales program financial activity and position. (Note: The SAA financial statements are not consolidated in the DoD Agency-wide financial statements but are consolidated directly into the Financial Report of the United States Government as a separate standalone Significant Reporting Entity in accordance with Treasury Financial Manual Volume 1, Part 2, Chapter 4700, Appendix 1a). The SAA completed its first annual consolidated financial statement audit during FY 2022 covering approximately $94.7 billion in total assets. The audit was conducted by IPAs who issued a disclaimer of opinion. See Note 27, Security Assistance Accounts, in the Financial Section for additional information.

Four F/A-18E Super Hornets, attached to Carrier Air Wing 1, fly in formation with French air force aircraft, including an Airbus A330 Multi-Role Tanker Transport and two Rafale F3R combat aircraft, alongside the Nimitz-class aircraft carrier USS Harry S. Truman in the Mediterranean Sea, July 30, 2022. The Harry S. Truman Carrier Strike Group is on a scheduled deployment in the U.S. Naval Forces Europe area of operations. Photo By: Navy Strike Fighter Squadron 11, Courtesy photo

FY 2022 Audit Priorities and Audit Roadmaps

The Department continues to address long-standing areas of material weaknesses including; Property in the Possession of Contractors, Real Property, Inventory, Operating Materials and Supplies, and the Joint Strike Fighter Program. However, the Secretary of Defense recommitted efforts by refining the Department's audit priorities to better align remediation resources to areas of expected audit results in FY 2022. As such, the Department focused on the following audit priorities:

- Fund Balance with Treasury (FBwT);
- Access Controls; and
- Universe of Transactions (UoT).

To help guide the process of addressing these priority areas, senior leaders across the Department will continue to leverage audit roadmaps, the governance process, and working groups to foster accountability toward finding solutions to common barriers for each component under standalone audit that received a disclaimer of opinion. The Department uses these audit roadmaps to align material weakness remediation strategies across the Department, identify timelines, prioritize focus areas, and ensure progress and resources are monitored. The audit roadmaps detail the completion date, by fiscal year, of corrective actions necessary for the remediation of material weaknesses and the targeted validation dates. The components' audit roadmaps were aggregated, analyzed, and used to develop a Department-wide audit roadmap that documents the Department's planned date for the projected downgrade of Department-wide material weaknesses.

Audit Progress Measurement

The Department continues to monitor the number of NFRs closed and material weaknesses downgraded to a significant deficiency or resolved, to measure progress toward achieving a Department-wide unmodified opinion. 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. As of November 15, 2022, the Department closed 483 (14.5 percent) of the NFRs issued during FY 2021. The Department will continue to use audit findings to drive and sustain remediation efforts, focusing on findings that are integral to resolving material weaknesses.

Additional methods the Department uses to measure financial statement audit progress include:

- Tracking the achievement of major milestones toward the remediation of NFRs that contribute to material weaknesses;
- Assessing the effectiveness of CAPs in successfully remediating associated NFRs;
- Evaluating progress in the results of Statement on Standards for Attestation Engagements *(SSAE) No. 18* examination of System and Organization Controls (*SOC*) reports over service providers; and
- Monitoring the completion of remediation activities and using Advana to distill data and support analytical insights for decision-making.

Value of the Audit

The audit has been a catalyst for business process and business systems reform across the Department resulting in greater financial integrity, increased transparency, and ultimately, a better supported warfighter. Achieving and sustaining an unmodified audit opinion will require the continued investment of resources and focus of senior leaders. However, the trustworthiness and transparency the audit delivers will promote a lasting, leaner, and more accountable DoD in the areas below:

- **A modernized workforce:** The scale of the Department's business processes and volume of its transactions are becoming less burdensome as the annual audits progress. Our workforce is building, deploying, and managing Robotic Process Automation or "bots" to automate functions that would be cost-prohibitive when performed manually. The audits are driving an increase in bot adoption, allowing personnel to execute basic functions in a fraction of the time it would take a person to complete, making time for other more complex tasks. Army successfully deployed a robotic process automation solution to retrieve supporting documents directly from the source system, minimizing manual effort and reducing the average response time. On its first day, the "bot" successfully retrieved supporting documents for 96 percent of the sample items, a process that typically takes five to ten days when performed manually.
- **Improved business operations:** The audits are providing a positive return on investment from value gained through independent auditor insight into the Department's business processes; to assess what is performing well and what areas still need improvement. In FY 2022, Air Force transitioned from their legacy system into a modern enterprise Governance, Risk, and Compliance (eGRC) platform which reduced the number of reporting organizations from in-excess-of 6,500 to 57 individual organizations. Consolidating reporting organizations benefited the Risk Management Internal Control (RMIC) Program's internal controls reporting process and removed redundant reporting requirements for the Statement of Assurance (SoA) by alleviating a substantial administrative burden and allowing for the reallocation of over 142,000 labor hours that were redistributed into other mission critical activities.
- **Quality decision-making:** One of the best cases for value being derived from the audits comes from the extensive improvements in the timeliness, accuracy, and availability of financial and operational data. Through reviewing available data, the National Geospatial-Intelligence Agency (NGA) was able to process over $43 million in contract de-obligations which were identified through their continuing effort to review dormant accounts. The de-obligation of these dormant accounts, or accounts with no financial activity for a long time, allowed NGA to reprogram those funds to more immediate mission-support and mission-critical needs.
- **Reliable networks:** The audits are highlighting derived value gained from turning management's attention toward cyberspace by focusing on strengthening the Department's IT controls. Auditors test the Department's processes and procedures for controlling system access and the levels of access given to users (e.g., access to the core coding and configuration functions of a system). The audits test physical and logical controls and provide specific feedback on the areas to improve security and controls to prevent foreign and domestic hacks and cyberattacks. During the year, the Department of Navy - Chief Information Officer (DoN-CIO) deployed the Naval Identity Services Identity, Credential, and Access Management solution and integrated it with Navy Enterprise Resource Planning (ERP) to automate account provisioning, account removal, and access reviews for over 83,000 users.
- **Enhanced public confidence:** The audits deliver value to the Department by enabling the capability to accurately and timely account for defense resources. The systems used to process Military Pay and Civilian Pay continued to receive unmodified opinions regarding SSAE No. 18 for the sixth and tenth consecutive years, respectively.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Statement of Assurance

November 15, 2022

The Department assessed the effectiveness of internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), section 2, and Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, the Department is unable to provide assurance of the effectiveness of internal controls in place to support reliable financial reporting as of September 30, 2022. The Department's management identified 37 material weaknesses across the following 14 areas of material weakness:

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

The Department assessed the effectiveness of internal controls over operations in accordance with FMFIA section 2 and OMB Circular No. A-123. Based on this assessment, the Department provides modified assurance of the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2022. The Department's management identified 23 material weaknesses across the following 10 assessable units:

- Acquisition
- Comptroller and/or Resource Management
- Communication
- Contract Administration
- Information Technology
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Personnel and/or Organizational Management
- Support Services
- Supply Operations

The Department assessed the compliance of DoD financial management systems in accordance with FMFIA section 4; the Federal Financial Management Improvement Act of 1996 (FFMIA), section 803(a); and OMB Circular No. A-123, Appendix D. Based on this assessment, the Department is unable to provide assurance that DoD financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger at the transaction level as of September 30, 2022. The Department's management identified three instances of non-conformance in the areas of Business System Modernization, Federal Information Systems Control Audit Manual (FISCAM) compliance, and FFMIA compliance.

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

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

Lloyd J. Austin III
Secretary of Defense

MANAGEMENT ASSURANCES

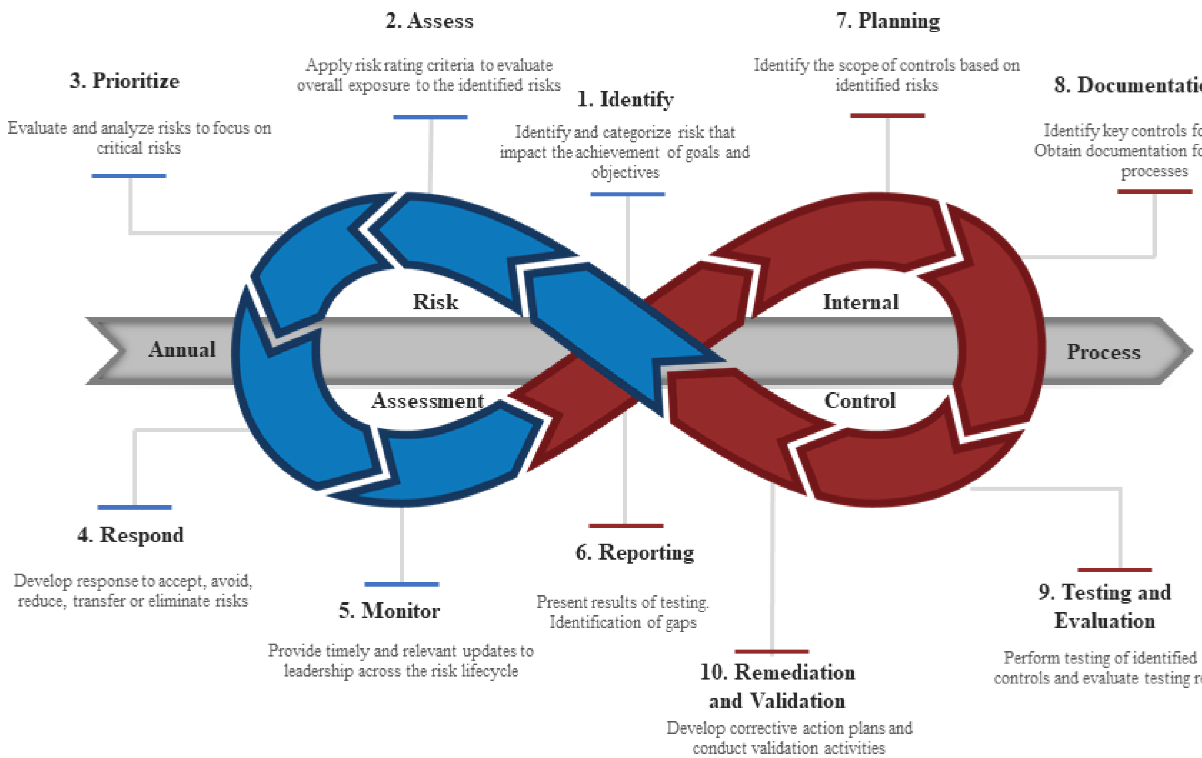
The Department is committed to instituting and maintaining an effective system of internal controls to provide reasonable assurance that it achieves its mission. By appropriately assessing internal controls, the Department can identify opportunities to improve business operations and support effective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

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

The Office of the Director of Administration and Management (ODA&M) and Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) lead the Department's effort in fulfilling these requirements using the RMIC Program. This program holds both operational and financial managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility.

The DoD RMIC Program uses a continual, cyclical, and unified approach for assessing risk and evaluating internal controls to achieve its objectives over operations, reporting, and compliance (see Figure 18). The RMIC Program culminates in the SoA, the Department's report on the design and effectiveness of key control activities, which is compiled from information received from the DoD Components. The RMIC Program and the Financial Statement Audit are complementary processes that, when integrated, provide management with the information needed to accelerate and sustain a financial and operations audit remediation posture. During FY 2022 the Department placed increased emphasis on bringing together the RMIC and financial statement audit remediation processes. This was done by establishing a single Senior Accountable Official (SAO) and Action Officer (AO) over each RMIC and financial audit material weakness, mapping findings, corrective action, and material weakness data between them to provide more data driven and strategic decision making, and by initiating a process to develop unified remediation strategies. Going forward, this approach will combine efforts to analysis, improve efficiency and collaboration.

Figure 18. RMIC Program Process



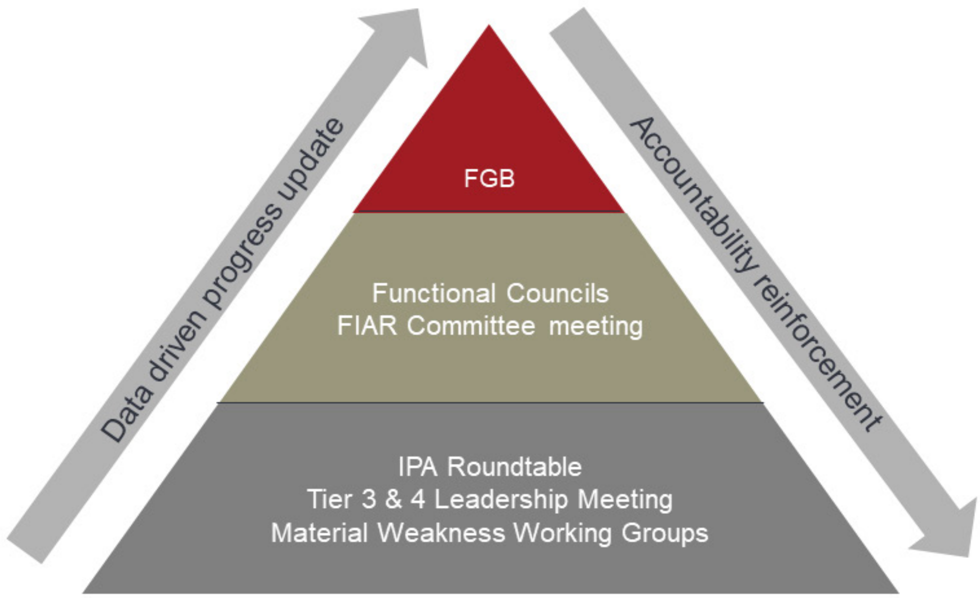
The risk assessment process provides the DoD Components with specific focus areas for internal control testing and the concentration of remediation activities to increase business process efficiencies and accelerate program efforts. In accordance with *DoD Instruction 5010.40*, the DoD Components must integrate risk management and effective internal controls into their business activities as an essential part of managing their organization. Components are responsible for conducting annual comprehensive top-down risk assessments, using the results to inform focus areas for internal control evaluations, and reporting issues that rise to the level of a material weakness or significant deficiency to OUSD(C). Once this information is submitted, OUSD(C) coordinates with Department-wide SAOs, who are executive-level subject matter experts selected based on their functional ability to provide oversight and monitoring. These SAOs determine which component-level issues aggregate to Department-wide significant deficiencies or material weaknesses. Additionally, the SAOs and their assigned AOs work with the components to establish working groups to address material weaknesses and develop CAPs, monitor CAP implementation, track material weakness remediation progress, and report progress to senior DoD leaders through the RMIC governance process. Consolidating RMIC and financial audit material weaknesses under a single SAO and AO creates synergies that improve efficiency and fosters the close collaboration between OUSD(C) and its partners such as the Office of the Chief Information Officer and the Office of the Under Secretary of Defense (Acquisition and Sustainment).

A guardian is reunited with family at a basic military training coining ceremony at Joint Base San Antonio. Photo by Ethan Johnson, Air Force.

Governance

The Financial Improvement and Audit Remediation (FIAR) governance structure establishes a forum to provide financial management leaders and workforce the information and support to continue making progress toward solving the Department's most complex issues. The FIAR governance structure comprises the following governing bodies and functions (see Figure 19):

Figure 19. FIAR Governance Structure



- **FIAR Governance Board (FGB):** Provides vision, leadership, direction, oversight, and accountability in support of achieving an unmodified audit opinion. Through bimonthly meetings, it prioritizes Department-wide corrective actions that provide the greatest value to the warfighter. In addition to the Under Secretary of Defense (Comptroller) and the Director of Administration and Management, other participants include key leaders from the DoD Components under a standalone audit, as well as representatives from the GAO, Office of Management and Budget, and DoD Office of Inspector General.
- **Functional Councils:** Address high-profile and pivotal audit issues related to Financial Reporting and Fund Balance with Treasury, Property, and IT. Councils meet quarterly to review remediation status and develop solutions that may involve changes to DoD policy and procedures.
- **FIAR Committee Meetings:** Provide similar oversight and direction as the FGB but at a more detailed level.
- **IPA Roundtable:** Facilitates consistent treatment of Department-wide audit issues across IPA firms.
- **Tier 3 & 4 Leadership Meeting:** Provides oversight and direction to the DoD Components not undergoing a standalone audit.
- **Material Weakness Working Groups:** Assist the DoD Components in the progression of resolving material weaknesses such as Property in the Possession of Contractors; Real Property; Inventory and Operating Materials and Supplies; Environmental and Disposal Liabilities; and the Joint Strike Fighter Program.

SYSTEMS COMPLIANCE AND STRATEGY

The Department continues to engage in a complex and challenging transformation effort to reform its financial management (FM) environment for enhanced mission effectiveness and auditability in compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) and the Office of Management and Budget (OMB) Circular No. A-123, Appendix D. Modernization and improved interoperability of DoD business systems are critical to efficiently respond to warfighter needs, sustain public confidence in the Department's stewardship of taxpayer funds, and support the path to full auditability. The remediation of findings from the financial statement audits is a significant part of the Department's FM improvement strategy and is an accelerator for achieving a target environment that is data-driven, standards-based, technology-enabled, affordable, secure, and auditable.

In accordance with 10 U.S.C. §240g, the Department submitted an updated defense business system (DBS) Audit Remediation Plan to the Congress in July 2022. This plan, which is a living document and submitted to Congress annually, provides an integrated view of the enterprise roadmap for audit-relevant DBSs. The plan is a current account of DBSs of the Department that will be introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. The plan also established a foundation for a future roadmap that will:

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

In addition, the DBS Audit Remediation Plan highlights the Department's progress and identifies areas of improvement for monitoring and managing its DBSs in developing a sustainable enterprise roadmap. For example, in FY 2022, the Department retired 18 vulnerable systems. The financial statement audits help drive the accuracy of the systems inventory, which in turn improves management of DBSs. Although the report serves as a baseline to advance the Department forward, a key improvement identified in the plan is to establish an enterprise target date to achieve the desired target state. Implementing the DBS Audit Remediation Plan will maximize the performance of the Department's financial management systems while also reducing the population of these systems.

A Marine greets his family during a homecoming at Marine Corps Air Station Camp Pendleton, Calif., Feb. 28, 2022. Photo By Marine Corps Sgt. Dana Beesley.

Enterprise Resource Planning Systems

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

Department of the Army

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

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

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

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

Department of the Navy

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

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

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

Defense Agencies Initiative (DAI) has been implemented by the Marine Corps as its core financial management system at the start of FY 2022. As part of this effort, the Marine Corps began a transition from the current civilian time and attendance system—the Standard Labor Collection and Distribution Application, to the DAI—Oracle Time and Labor (OTL) module.

Department of the Air Force

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

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

Other Defense Organization ERPs

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

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

LEGAL COMPLIANCE

Antideficiency Act

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

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

During FY 2022, the Department reported one case that occurred during the fiscal years of 2015 through 2019, totaling $3.4 million from the use of Research, Development, Test, and Evaluation (RDT&E) funds to pay the educational expenses of Marshallese school children attending the USAKA school, known as the Ri'katak Program. RDT&E appropriations were not available for this purpose, thereby violating the Purpose Statute (31 U.S.C § 1301). As no DoD appropriations were available at the time for what was a foreign assistance program, the Department violated the ADA.

To prevent recurrences of these types of violations, legislation was enacted in the National Defense Authorization Act for FY 2020 to authorize the Ri'katak Program on a space-available basis. This authorization allows assistance for education, including student meals and transportation.

Further information about the Department's reported ADA violations and remedial actions taken are included in GAO's annual compilation of Antideficiency Act Reports.

Army paratroopers jump out of a C-130J Super Hercules aircraft over Ramstein Air Base, Germany, May 25, 2022, during an event to celebrate the 80th anniversary of the 37th Airlift Squadron. Photo by Air Force Staff Sgt. Megan M. Beatty.

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

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

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

Under the CARES Act, federal agencies are required to submit a monthly report to OMB, the Treasury, the *Pandemic Response Accountability Committee*, and the appropriate congressional committees that detail how the supplemental funds were used. To fulfill this requirement, the Department issued several memoranda to the DoD FM community and Departmental leaders instructing the weekly cost reporting of CARES Act funding. On a weekly basis, the Department populated over 100 million transactions from 23 general ledger accounting systems into Advana to facilitate compilation, oversight and monitoring, and data analytics. The Department then leveraged the existing Digital Accountability and Transparency Act of 2014 reporting mechanism to provide the monthly status of all COVID-19 funding execution. This data is published for full transparency, while still protecting the Department's operational security concerns, on *USAspending.gov*.

Air Force wounded warrior athletes congratulate each during a wheelchair rugby competition at Joint Base San Antonio, March 23, 2022. Photo By Air Force Staff Sgt. James Crow.

Digital Accountability and Transparency Act

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

In November 2021, the DoD OIG issued the Department a recommendation to update DoD's DATA Act Data Quality Plan to include a process for documenting and disclosing changes to any DoD Data Act submission. This process included the removal of any information from data elements, as well as changes related to exceptions and errors received from the DATA Act Broker, within the monthly and quarterly DATA Act submissions certification comments. During FY 2022, the plan was updated to include a process for documenting and disclosing monthly and quarterly error reports received from the DATA Act Broker better aligning the Department's quality plan with the DATA Act of 2014.

On a monthly basis, the Department publishes summary level appropriation, obligation, and outlay data in USAspending.gov in accordance with the DATA Act. On a quarterly basis, the Department submits additional spending and financial award data for publication on USAspending.gov for obligations and outlays at the contract and financial assistance award level. As of June 2022, the Department reported the alignment of over $34.6 billion across over 894,000 active contract and financial assistance awards (approximately 85 percent of the population) through DATA Act certification. The Department remains fully committed to enabling data transparency, while balancing the need to protect classified data and that which could compromise operational security.

Army Spc. Lorena Martinez rappels down a tower during training at Camp Dodge in Johnston, Iowa, June 8, 2022. Photo By: Army Staff Sgt. Tawny Schmit

Payment Integrity Information Act

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

- Civilian Pay;
- Commercial Pay;
- Military Health Benefits;
- Military Pay;
- Military Retirement; and
- Travel Pay.

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

Each fiscal year, the DoD OIG reviews the Department's Agency Financial Report and Payment Integrity portfolio, which is published on PaymentAccuracy.gov, to determine the Department's compliance with the PIIA reporting requirements. The DoD OIG then submits a report to the Secretary of Defense, the U.S. Senate Committee on Homeland Security and Governmental Affairs, the U.S. House of Representatives Committee on Oversight and Reform, the appropriate authorizing and appropriations committees of Congress, the Comptroller General of the United States, and the OMB Office of Federal Financial Management Controller. The results of the DoD OIG's FY 2022 determination of DoD payment integrity compliance will be published on the DoD OIG website in May 2023.

Since FY 2017, the Department has demonstrated progress toward achieving all the payment integrity measures evaluated in this annual review (see Figure 20).

Figure 20. DoD Payment Integrity Compliance Review Results

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

Legend: ✓ Compliant ✗ Not Compliant

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

Prompt Payment Act

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

The Department's goal is to average $90 or less in interest dollars paid per million PPA dollars disbursed on a monthly basis across all applicable contracts. During FY 2022, the average interest paid per million PPA dollars disbursed on a monthly basis was $60.30, an increase over FY 2021's average of $30.43, which is well under the Department's goal. The largest contributors to the increase were primarily within the components' networks and were a result of system migrations that caused challenges resulting in payment delays. Concentrated efforts to clear the inventory of overaged invoices and reductions in manual payments, in addition to improvements in related financial management systems have contributed to the Department's ability to perform under goal. In addition, Prompt Payment interest rate fluctuations can impact performance against goal, as Prompt Payment interest rates, set by Treasury, change twice a year.

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

Auxiliary Repair Dry Dock (ARDM) 4 departs Submarine Base New London in Groton, Connecticut, on the morning of Friday, Aug. 26, 2022. The Shippingport will transit to Colonna's Shipyard in Norfolk, Virginia, to complete the Chief of Naval Operations Docking Service Craft Overhaul availability that is expected to be completed by June 2023. Photo by John Narewski.


GEORGE H.W. BUSH
CVN 77
MUTTS WITH A MISSION

FINANCIAL SECTION
(UNAUDITED)

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

Left: U.S. Marine Corps Pfc. Christopher Fennel, a mortarman with Weapons Company, 3rd Battalion, 1st Marine Regiment, 1st Marine Division, carries an M224 60 mm mortar system to a range during a Tactical Small Unit Leaders Course (TSULC) at Marine Corps Base Camp Pendleton, California, Jan. 31, 2022. Marines with 3/1 participated in TSULC in order to give small unit leaders the confidence, knowledge and ability to better lead their Marines in combat situations. Photo by Lance Cpl. Brayden Daniel.

Previous Page: A dog from Mutts With a Mission kisses a sailor while visiting the USS George H.W. Bush in Norfolk, Va., July 20, 2022. Mutts With a Mission is a nonprofit organization that provides specially trained service/assistance dogs to qualified veterans, wounded warriors, law enforcement officers and others. Photo by Navy Petty Officer 2nd Class Novalee Manzella.

OH HOW FAR I'VE COME

U.S. Marine Corps drill instructor Sgt. Sam Plaskon poses for a photo aboard Marine Corps Recruit Depot Parris Island, S.C., August 18, 2022. Sgt. Plaskon was originally born in Ukraine; He was adopted and brought to the United States at the age of 8 years old.
(U.S. Marine Corps photo by Lance Cpl. Dakota Dodd)

Read the full story here.

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

November 15, 2022

It is an honor to join the Secretary in presenting the Department of Defense (DoD) Agency Financial Report (AFR) for fiscal year (FY) 2022. The FY 2022 financial statements and accompanying information reflect our continuing efforts to advance the DoD mission through the Secretary's priorities and deliver transparent financial reporting with integrity and agility in support of the National Defense Strategy.

As showcased in the DoD Financial Management Strategy for FY 2022-2026, the risks that impact our ability to achieve our desired outcomes and the benefits of modernization to the mission and the workforce are undeniable. It takes the total force to execute our strategy, and we must continue our pursuit of excellence and set our sights high. We are committed to demonstrating transparency and accountability to the President, Congress, and the American public.

This is the fifth consecutive year the Department has undergone a financial statement audit performed by various independent public accounting firms and the DoD Office of Inspector General. Though we received a disclaimer of opinion on the Agency-wide financial statement audit, we have derived invaluable feedback to support our long-term effort to transform and modernize the Department. This feedback will enhance fiscal discipline when setting priorities and making difficult decisions among competing demands in order to maximize the impact of every dollar.

This year, the auditors identified 28 material weaknesses; nonetheless, the DoD Components continued to achieve significant success along their paths toward an unmodified opinion. Some of their individual accomplishments include the validation and matching of more than $501 billion in Fund Balance with Treasury transactions representing a 99 percent match of the transactions in direct support of the Secretary's audit priorities. Additionally, the Components were able to:

- implement a new modern accounting enterprise resource planning tool while decommissioning three vulnerable systems;
- deploy 176 robotic process automation tools enabling reprioritization of 150,000 labor hours;
- close a recurring notice of finding and recommendation addressing approximately $1.2 billion in annual payments made in support of the Federal Employment Compensation Act; and
- host inventory site visits resulting in external auditors counting more than 196,000 items–with a value of over $2.4 billion–at 99 percent accuracy.

We continue striving to achieve an unmodified audit opinion, create a sustainable audit environment, and address areas of non-compliance. We created a detailed plan focusing on the Secretary's audit priorities (Fund Balance with Treasury, Access Controls, and Universe of Transactions). These priorities will guide our efforts to critical path milestones, mitigate barriers to audit success and align corrective actions to strengthen accountability.

Our vision remains clear: Fiscal readiness accelerates mission readiness. As we begin another year under audit, it is imperative that every decision we make at the Department is fiscally informed by delivering financial advice that empowers global force decision-making. The annual audit regimen provides a foundation for this empowerment; enabling reinvestment in operational capability; and improving the quality, integrity, and security of the data used for decision-making across the Department.

The Department's continuing progress would not be possible without the dedication of our Military Service members and civilian employees. I am grateful for the continued support from Congress and the American public for entrusting us with the resources necessary to protect our great Nation. I look forward to addressing the challenges that will be presented through future audits as we improve the quality and reliability of our financial information, as well as the efficiency and effectiveness of our operations.

Michael McCord

Michael McCord

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

November 15, 2022

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

SUBJECT: Independent Auditor's Reports on the DoD FY 2022 and FY 2021 Financial Statements (Project No. D2022-D000FV-0071.000, Report No. DODIG-2023-031)

We are providing the subject Independent Auditor's Reports to be published in the DoD FY 2022 Agency Financial Report. Our reports are issued to accompany the DoD Agency-Wide Financial Statements as of and for the fiscal years ended September 30, 2022, and September 30, 2021, and should not be disseminated separately from these financial statements.[1]

We were engaged to conduct our audit in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 22-01; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[2] Our attached Independent Auditor's Reports consist of the:

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

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[1] The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures.

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

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

The Report on Internal Control over Financial Reporting includes a description of 28 material weaknesses and 3 significant deficiencies related to the DoD's internal controls over financial reporting.[3] The Report on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements includes a description of seven instances of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

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

[3] A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, in a timely manner. 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.

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

November 15, 2022

Report on the Financial Statements

Disclaimer of Opinion

The DoD Agency-Wide Financial Statements include the Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures in its Agency Financial Report. These statements are referred to as the financial statements in this report. We were engaged to audit the financial statements as of and for the fiscal years ended September 30, 2022, and September 30, 2021, as required by the Chief Financial Officers Act of 1990.[1]

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

Basis for Disclaimer of Opinion

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

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

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

[2] Office of Management and Budget (OMB) Bulletin No. 22-01 lists the U.S. Marine Corps as a DoD Component that is required to prepare audited financial statements; however, for FY 2022, OMB exempted the U.S. Marine Corps from preparing audited financial statements. As a result, we did not consider any results from the U.S. Marine Corps audit when issuing our disclaimer of opinion.

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

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

The DoD reporting entities that received disclaimers of opinion on their financial statements, when combined, account for at least 47 percent of the DoD's total assets and at least 71 percent of the DoD's total budgetary resources. These combined balances are material to the Agency-Wide Financial Statements.

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

- DoD management did not report materially complete balances in the Agency-Wide Financial Statements as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 47.[3] This omission resulted in a material misstatement on the Agency-Wide Financial Statements. However, since we were unable to obtain accurate and reliable data

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

related to the omitted balances, we could not quantify the material misstatement in DoD's balances on the Agency-Wide Financial Statements.

- The Joint Strike Fighter Program is intended to develop and field the next-generation strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. However, DoD management did not report Joint Strike Fighter Program Government property, which is composed of Global Pooled Inventory and Support Equipment, in the Agency-Wide Financial Statements, as required by OMB Circular No. A-136 and SFFAS Concepts No. 1.[4] This omission resulted in a material misstatement in DoD's assets on the Agency-Wide Financial Statements. However, since the DoD is unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Joint Strike Fighter Program Government property, we could not quantify the material misstatement in DoD's assets on the Agency-Wide Financial Statements.

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

Other Matters

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

Management's Responsibility for the Agency Financial Report

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

[4] OMB Circular No. A-136, "Financial Reporting Requirements," June 2022, and Federal Accounting Standards Advisory Board Handbook, SFFAS Concepts No. 1, "Objectives of Federal Financial Reporting," September 1993.

implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Agency Financial Report

Our responsibility is to express an opinion on the financial statements based on our performance of the audit, and to review the Management's Discussion and Analysis section within the Agency Financial Report in accordance with generally accepted government auditing standards (GAGAS); OMB Bulletin No. 22-01; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[5] However, because of the significance of matters described in the "Basis for Disclaimer of Opinion" section, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on the financial statements.

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

Required Supplementary Information

The OMB requires that the Required Supplementary Information, which includes the Management's Discussion and Analysis, be presented in the Agency Financial Report to supplement the financial statements. The Required Supplementary Information is the responsibility of management and, although not a part of the financial statements, it is required by the OMB and Federal Accounting Standards Accounting Board, who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the Required Supplementary Information in accordance with GAGAS, because of the matters described in the "Basis for Disclaimer of Opinion" section above.[6] Accordingly, we do not express an opinion or provide any assurance on this information.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with GAGAS and OMB Bulletin No. 22-01, we also issued reports dated November 15, 2022, on our consideration of the DoD's internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on the effectiveness of the DoD's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with GAGAS and OMB Bulletin No. 22-01 and should be considered in assessing the results of our audit.

Agency Comments

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

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November 15, 2022

Report on Internal Control over Financial Reporting

We were engaged to audit the DoD Agency-Wide Financial Statements in accordance with generally accepted government auditing standards (GAGAS); the Office of Management and Budget (OMB) Bulletin No. 22-01; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[1] The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2022, and September 30, 2021. Our Report on the Financial Statements, dated November 15, 2022, disclaims an opinion on the financial statements because we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

DoD management is responsible for: (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud, abuse, or error; and (2) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA).[2]

Auditor's Responsibilities

GAGAS and OMB guidance require auditors to report on an entity's internal control over financial reporting. In connection with our audit of the financial statements, we considered the DoD's internal control over financial reporting to design audit

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

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

procedures that were appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the DoD's internal controls over financial reporting. Additionally, we performed audit procedures at the agency-wide level and considered the results of the DoD reporting entities' audits to identify material weaknesses and significant deficiencies in internal control over financial reporting.[3] Based on the scope and limitations of our work and the effects of these limitations noted throughout this audit report, our internal control work was not designed to, and would not identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that we did not identify.

Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected, in a timely manner. A description of the 28 material weaknesses we identified during our audit are presented below.

Financial Management Systems Modernization. The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that the DoD implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.[4] In FY 2022, the DoD published a Financial Management Strategy and Information Technology Roadmap that establishes the DoD's plan to retire non-compliant systems and move towards modernization of the DoD's financial management systems. While the Information Technology Roadmap establishes a multi-phased approach for the DoD's review of non-compliant systems, it does not provide timelines for these reviews. In addition, the DoD has identified many financial management systems that do not have the capability to record financial transactions in compliance with the FFMIA; however, it is unable to produce a complete inventory listing of systems that do not comply with the FFMIA. Before the DoD can implement a comprehensive plan and retire non-compliant systems, it must first ensure

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

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

it has a complete and accurate inventory of financial management systems. The use of financial management systems that do not comply with the FFMIA will continue to impede the DoD and its ability to achieve a clean audit opinion. Additionally, the use of noncompliant financial management systems increased the risk that balances in the financial statements may be incomplete, inaccurate, or invalid.

Configuration Management and Security Management. National Institute of Standards and Technology (NIST), Special Publication (SP) 800-53, and the Government Accountability Office, Standards for Internal Control in the Federal Government (the Green Book), require the DoD to design and implement configuration management and security management controls.[5] These controls focus on establishing and maintaining the integrity of information systems, and they require the DoD to develop, document, and implement configuration management and security management policies, procedures, and plans. However, DoD Components lacked effective configuration management and security management controls for significant financial management and feeder systems. For example, multiple DoD Components did not have formalized and comprehensive policies and procedures for configuration management and security management. The lack of effective configuration management and security management controls increases the risk of unauthorized use of or inappropriate modifications to significant financial management and feeder systems, which could result in inaccurate financial data within the financial statements. As a result, there is an increased risk that balances presented in the financial statements may be materially misstated.

Access Controls. NIST SP 800-53 and the Green Book require the DoD to design and implement access controls to provide reasonable assurance that only authorized individuals have access to computer resources such as data, equipment, and facilities. Access controls also ensure roles for authorized users are reasonable, such as ensuring a user does not have access to perform unauthorized or inappropriate activities. However, DoD Components did not design and implement effective access controls for various significant financial management and feeder systems. For example, DoD Components did not perform comprehensive periodic reviews of all users with access to certain systems to validate whether the users current access and roles were appropriate. Additionally, DoD management did not fully implement corrective actions to design and implement an enterprise process for managing the timely removal of

[5] NIST, SP 800-53, Revision 5, "Security and Privacy Controls for Information Systems and Organizations," September 2020, and the Government Accountability Office GAO-14-704G, "Standards for Internal Control in the Federal Government," (the Green Book), September 2014.

terminated or transferred system user accounts. Without proper access controls over significant financial systems, the DoD could compromise the confidentiality, integrity, or availability of financially relevant data. This lack of controls increased the risk that amounts presented in the financial statements may be materially misstated.

Segregation of Duties. NIST SP 800-53 and the Green Book require the DoD to design and implement controls to provide reasonable assurance that key duties are segregated between different users. However, DoD Components did not design and implement effective segregation of duties controls for significant financial management and feeder systems. Specifically, DoD Components did not develop a process to properly identify conflicting roles or segregate key function roles. Additionally, DoD Components did not prioritize the implementation of segregation of duties and did not collaborate with all stakeholders to ensure effective segregation of duties controls were implemented. For example, one DoD Component had not corrected a deficiency, identified in FY 2018, in documenting its segregation of duties analysis for mainframe business functions. The lack of effective segregation of duties controls could increase the risk of inappropriate personnel processing transactions, and could result in inaccurate financial data, expose systems to security risks, or allow for fraudulent activity. Because DoD Components did not effectively implement segregation of duties controls, there is an increased risk that line item balances in the Agency-Wide Financial Statements may be materially misstated.

Interface Controls. NIST SP 800-53 and the Green Book require the DoD to implement interface controls to provide reasonable assurance that data being processed on an ongoing basis between systems are accurate and completed in a timely manner. Interface controls are necessary to ensure reliable data are properly converted within DoD's financial management systems. However, DoD Components did not have comprehensive or documented interface strategies and did not design or implement effective interface controls for multiple significant financial management systems. For example, DoD Components were unable to identify complete and accurate populations of interface edits and validations that affect financially relevant transactions. As a result, DoD Components were unable to demonstrate that the interface edits and validations were operating as intended. Additionally, DoD Components did not perform or document sufficient reconciliations between systems, to validate completeness and accuracy of financial data. The lack of effective interface controls directly impacted the reliability of the DoD's financial data, and there is an increased risk that amounts presented in the financial statements may be materially misstated.

Universe of Transactions. OMB Bulletin No. 22-01 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements. However, neither the DoD nor its Components were able to provide transaction-level populations supporting material line items. Additionally, DoD Components and the Defense Finance and Accounting Service (DFAS), the DoD's service provider, were unable to reconcile the information presented within the trial balances to underlying transaction-level detail. Specifically, DoD Components performed reconciliations at a summary-level, rather than the transaction-level, and did not always perform these reconciliations before preparing their financial statements. As a result, the DoD was unable to completely and accurately reconcile its financial statements to transaction-level data. Without a complete universe of transactions, the DoD and its Components could not verify the completeness and accuracy of data reported on their financial statements. This increased the risk that the balances in the Agency-Wide Financial Statements may be materially misstated.

Reporting Entity. Statement of Federal Financial Accounting Standard (SFFAS) No. 47 assists the DoD in determining which entities it should consolidate and report in the Agency-Wide Financial Statements and what information it should present in the Agency-Wide Financial Statements.[6] According to SFFAS No. 47, a reporting entity is an organization that issues its own financial statements due to a statutory or administrative requirement or by choice. Component reporting entity refers to a reporting entity within a larger reporting entity. Lastly, a consolidation entity is an organization that should be consolidated in the financial statements of a reporting entity. For example, the Army General Fund is considered a reporting entity because the OMB requires it to produce stand-alone financial statements. It is also considered a component reporting entity and consolidation entity because it is reported within the Agency-Wide Financial Statements. The DoD comprises over 60 consolidation entities, and many are considered Component reporting entities because they produce their own financial statements. According to SFFAS No. 47, the DoD is responsible for reporting all organizations for which it is accountable, including all consolidation entities administratively assigned to the DoD. However, DoD management did not correctly apply SFFAS No. 47 principles and, as a result, did not report all consolidation entities for which it has reporting responsibility within its financial statements. In addition, DoD management was unable to identify who was responsible for one consolidation

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

entity that was material to the financial statements. Further, DoD management improperly identified all DoD consolidation entities as reporting entities, even though many of these entities do not prepare financial statements and associated note disclosures. Improper implementation and application of SFFAS No. 47 affected the reliability of information published by DoD management and led DoD management to report materially incomplete balances in the Agency-Wide Financial Statements.

DoD Component Level Accounts. OMB Circular No. A-123 states that management is responsible for developing and maintaining effective internal controls to ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.[7] However, the DoD and DFAS lacked internal controls over the reporting of a consolidation entity (DoD Component Level Accounts) balances in the Agency-Wide Financial Statements. Without proper internal controls, the DoD was unable to ensure that balances were reported completely and accurately in the DoD Component Level Accounts entity. As a result, there is an increased risk that balances reported in the Agency-Wide Financial Statements are materially incomplete and inaccurate.

Fund Balance with Treasury. As of September 30, 2022, the DoD reported a Fund Balance with Treasury balance of $692.9 billion. SFFAS No. 1 defines Fund Balance with Treasury as the aggregate amount of funds in the DoD's accounts with Treasury for which the DoD is authorized to make expenditures and pay liabilities.[8] SFFAS No. 1 and the Treasury Financial Manual (TFM) require the DoD to reconcile its Fund Balance with Treasury and explain any discrepancies between balances reported by the DoD and the Treasury to ensure the integrity and accuracy of the DoD and Government-wide Financial Statements.[9] However, the DoD, DoD Components, and DFAS did not document or have effective controls for reconciling Fund Balance with Treasury. Additionally, the DoD Components and DFAS did not sufficiently monitor funds in suspense accounts.[10] Specifically, the DoD Financial Management Regulation (FMR) requires DoD Components to reclassify suspense transactions to the correct line of accounting and properly report them in the accounting system within 60 days.[11] However, the DoD Components and DFAS did not research suspense transactions to

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

[8] FASAB Handbook, SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.

[9] TFM, volume 1, part 2, chapter 5100, "Fund Balance with Treasury."

[10] TFM, volume 1, part 2, chapter 1500, "Description of Accounts Relating to Financial Operations," defines suspense accounts as accounts used to temporarily hold transactions that belong to the Government while waiting for information that will allow the transactions to be matched to a specific receipt or expenditure account.

[11] DoD Regulation 7000.14-R, DoD FMR, volume 12, chapter 1, "Funds."

resolve account variances in accordance with this 60-day requirement, or improperly attributed and cleared transactions to the incorrect DoD Component. Furthermore, DFAS manually prepared the suspense accounts universe of transactions, and it was not available until more than 50 days after quarter and year-end. DFAS's manual preparation of the suspense account universe of transactions increases the risk that errors or omissions in the data could occur, and may result in the suspense accounts universe of transaction being incomplete and inaccurate. As a result, the DoD and its Components were unable to ensure the completeness and accuracy of their Fund Balance with Treasury balance, which increased the risk that the financial statements may be materially misstated.

Inventory and Stockpile Materials. As of September 30, 2022, the DoD reported an Inventory and Stockpile Materials balance of $118.2 billion.[12] SFFAS No. 3 requires the DoD to value its inventory and stockpile material on the basis of historical cost or on a basis that reasonably approximates historical cost.[13] SFFAS No. 48 amends SFFAS No. 3 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of inventory and stockpile material.[14] However, DoD Components did not account for inventory and stockpile material according to SFFAS No. 3, or an alternative valuation method allowable by SFFAS No. 48. In addition, DoD Components could not produce documentation supporting the valuation of their inventory and stockpile material balances. Furthermore, DoD Components were unable to substantiate the existence and completeness of inventory and stockpile material reported on their financial statements. Specifically, DoD Components did not: (1) have sufficient internal controls to ensure transactions were recorded completely within an accountable property system of record; or (2) monitor the inventory counts to ensure inventory and stockpile material activity were reported accurately. Overall, the DoD was unable to support a material portion of its Inventory and Stockpile Material balance. As a result, there is an increased risk that the balance presented in the Agency-Wide Financial Statements may be materially misstated.

Operating Materials and Supplies. As of September 30, 2022, the DoD reported an Operating Materials and Supplies (OM&S) balance of $218.9 billion.[12] SFFAS No. 3 requires the DoD to value OM&S on the basis of historical cost or on a basis that reasonably approximates historical cost, and it requires OM&S be categorized as:

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

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

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

(1) OM&S held for use; (2) OM&S held in reserve for future use; or (3) excess, obsolete, and unserviceable. SFFAS No. 48 amends SFFAS No. 3, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. However, DoD Components did not account for OM&S according to SFFAS No. 3 or according to the alternative valuation method allowable by SFFAS No. 48. In addition, DoD Components were unable to substantiate the existence and completeness of the OM&S reported on their financial statements. Specifically, DoD Components did not have: (1) sufficient internal controls in place to implement requirements in accordance with SFFAS standards; or (2) procedures to accurately identify and value the excess, obsolete, and unserviceable OM&S reported on their financial statements. As a result, there is an increased risk that the OM&S balance reported within the Inventory and Related Property line in the Agency-Wide Financial Statements may be materially misstated.

General Property, Plant, and Equipment. As of September 30, 2022, the DoD reported a General Equipment and Internal Use Software balance of $477.5 billion.[15] SFFAS No. 6 requires the DoD to value its General Property, Plant, and Equipment (PP&E) on the basis of historical cost or on a basis that reasonably approximates historical cost.[16] SFFAS No. 50 amends SFFAS No. 6 and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the DoD makes an unreserved assertion that its financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP).[17] However, DoD Components did not have sufficient policies and procedures to report General PP&E balances accurately in accordance with SFFAS No. 6 or the one-time alternative valuation method allowed under SFFAS No. 50. In addition, DoD Components were unable to substantiate the existence and completeness of General PP&E reported on their financial statements. Because DoD

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[15] General Equipment, Internal Use Software, and Real Property are all reported within the General Property, Plant, and Equipment line item on the Balance Sheet.

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

[17] FASAB Handbook, SFFAS No. 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 2016.

Components could not accurately value or account for their General PP&E, there is an increased risk that the General PP&E balance in the Agency-Wide Financial Statements may be materially misstated.

Real Property. As of September 30, 2022, the DoD reported a Real Property balance of $337.0 billion.[15] The DoD FMR states that real property assets consist of buildings, structures, facilities, land, and land rights.[18] The DoD FMR requires the DoD reporting entities to properly recognize, account for, and report real property on the appropriate financial statements. Furthermore, the DoD FMR requires that DoD reporting entities ensure real property activity is supported, and that the accountable property systems of record that account for real property can be reconciled to the DoD reporting entities' financial statements. However, DoD Components could not support real property balances reported on their financial statements. In addition, DoD Components could not substantiate the existence and completeness of their real property assets. This occurred because DoD Components had insufficient internal controls to ensure real property assets were recorded completely and accurately within their accountable property systems of record. Without proper internal controls and procedures, there is a risk that real property balances may be unsupported at the DoD Component-level. As a result, there is an increased risk that the real property balance reported in the General PP&E line item in the Agency-Wide Financial Statements may be materially misstated.

Government Property in the Possession of Contractors. According to the Federal Acquisition Regulation, Government property is all property owned or leased by the Government, including material and property the Government furnished to contractors for performance of a contract. The DoD is required to: (1) recognize and account for Government furnished materials in accordance with SFFAS No. 3 and SFFAS No. 48; and (2) recognize and account for Government furnished property in accordance with SFFAS No. 6 and SFFAS No. 50. However, DoD Components could not reconcile the Government Property in the Possession of Contractor balances reported on their financial statements to an accountable property system of record. In addition, DoD Components could not substantiate the existence and completeness of Government Property in the Possession of Contractor balances reported on their financial statements. This occurred because DoD Components did not have the policies, procedures, and internal controls in place to consistently and accurately report Government Property in the Possession of Contractor balances on their financial statements. Furthermore, DoD Components relied on contractors to account for

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

Government furnished material and property and did not have the policies, procedures, and internal controls in place to provide effective oversight of the contractors that managed material and property on the Government's behalf. As a result, DoD Components were unable to record and report Government Property in the Possession of Contractors balances accurately on their financial statements. This led to an increased risk that the Agency-Wide Financial Statements may be incomplete or inaccurate, and therefore materially misstated.

Joint Strike Fighter Program. OMB Circular No. A-136 states that management is responsible for providing complete and reliable information.[19] The Joint Strike Fighter Program is intended to develop and field the next-generation strike fighter aircraft for the Navy, the Air Force, the Marine Corps, and international partners. However, the DoD did not account for or manage Joint Strike Fighter Program Government property, which is composed of Global Pooled Inventory and Support Equipment, or accurately record this property in an accountable property system of record. Despite ongoing remediation efforts, the DoD was unable to provide or obtain accurate and reliable data to verify the existence, completeness, or value of its Joint Strike Fighter Program Government property, and did not report Joint Strike Fighter Program assets on its financial statements as of September 30, 2022. The omission of the Joint Strike Fighter program resulted in a material misstatement on the financial statements.

Accounts Payable. As of September 30, 2022, the DoD reported an Accounts Payable balance of $41.2 billion. SFFAS No. 1 states that accounts payable are amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rents. However, the DoD Components did not have sufficient documentation to support the existence and completeness of their Accounts Payable balances. In addition, the DoD and its Components did not have sufficient policies, procedures, and internal controls over their methodology for accruing payables. As a result, there is an increased risk that the Accounts Payable balance in the financial statements may be materially misstated.

Environmental and Disposal Liabilities. As of September 30, 2022, the DoD reported an Environmental and Disposal Liabilities balance of $90.6 billion. SFFAS No. 5 defines liability, for Federal accounting purposes, as a probable future outflow or other sacrifice of resources as a result of past transactions or events.[20] Federal Financial Accounting

[19] OMB Circular No. A-136, "Financial Reporting Requirements," June 2022.

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

and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.[21] However, the DoD Environmental and Disposal Liabilities did not include all cleanup, closure, or disposal costs. This occurred because the DoD did not ensure its Components followed Federal Financial Accounting Standards and DoD Financial Management policy to estimate complete Environmental and Disposal Liabilities. Additionally, the DoD lacked formal procedures and internal controls to substantiate the completeness and accuracy of its Environmental and Disposal Liabilities. As a result, there is an increased risk that the Environmental and Disposal Liabilities reported on the financial statements may be materially misstated.

Contingent Legal Liabilities. The TFM requires that the DoD General Counsel prepare a Legal Representation Letter that summarizes legal actions against the DoD and its reporting entities. In addition, DoD management must prepare a Management Schedule that summarizes the content of the Legal Representation Letter.[22] The Management Schedule must support disclosures in the financial statements. While the DoD Components prepared Legal Representation Letters and Management Schedules for consolidation and presentation in the agency-wide level Management Schedule, the DoD and its Components lacked internal controls over the process to present, calculate, and consolidate contingent legal liabilities. For example, DoD management, the DoD General Counsel, and the DoD Components did not have either sufficient or documented processes to ensure the completeness and accuracy of their contingent liabilities. Additionally, DoD management did not have a DoD-wide policy to ensure consistent reporting of similar aggregate legal cases among DoD Components. The lack of effective internal controls over the Legal Representation Letter and Management Schedule process created a risk that the balances in the financial statements may be materially misstated.

Beginning Balances. Beginning balances are the account balances that exist at the beginning of the reporting period, these balances are based on the closing balances of the prior period, and they reflect the effects of transactions and accounting policies applied in prior periods. The DoD FMR requires the DoD to maintain documentation to support beginning balances.[23] However, DoD Components did not have complete and accurate beginning balances on their financial statements. This occurred because DoD Components had system limitations and did not maintain sufficient and

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

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

[23] DoD Regulation 7000.14-R, DoD FMR, volume 1, chapter 9, "Financial Records Retention."

appropriate detailed transactions and historical data to support beginning balances on their financial statements. As a result, the DoD did not have accurate or complete beginning balances, which increased the risk that the financial statements may be materially misstated.

Unsupported Accounting Adjustments. In the last two quarters of FY 2022, the DoD recorded more than 1,500 unsupported accounting adjustments totaling more than $222 billion. The Green Book requires that transactions are promptly and accurately recorded. Additionally, the DoD FMR states that DoD Components must ensure all adjustments are researched and traceable to supporting documents as instructed in the TFM. Supporting documentation is necessary to provide an audit trail. However, the DoD and its Components did not have effective internal controls to provide reasonable assurance that accounting adjustments were supported, valid, complete, and accurately recorded in their accounting and general ledger systems. In addition, DoD Components recorded manual and system-generated accounting adjustments that lacked appropriate approvals. Without effective internal controls over the recording of accounting adjustments, the DoD was unable to provide reasonable assurance that material misstatements were prevented, or detected and corrected, in the financial statements. As a result, there is an increased risk that balances in the financial statements may be materially misstated.

Intragovernmental Transactions and Intradepartmental Eliminations. The TFM explains that intragovernmental transactions result from business activities conducted between two Government entities, such as the DoD and Department of State. These entities conducting business are called trading partners. The TFM further defines intradepartmental transactions as those occurring between two trading partners within the same entity; for example, transactions between the Army General Fund and the Defense Logistics Agency Working Capital Fund, which are both DoD reporting entities. The DoD is required to report intragovernmental balances on its financial statements and eliminate intradepartmental balances from its financial statements. The Treasury eliminates intragovernmental balances, identified by the DoD, from the Government-wide Financial Statements. For proper eliminations to occur, it is essential that the DoD captures accurate trading partner data for intragovernmental and intradepartmental transactions. However, multiple DoD accounting systems were unable to capture the trading partner data required to eliminate intragovernmental and intradepartmental transactions. Without the proper elimination of trading partner transactions in the financial statements, there is an increased risk that the financial statements may be materially misstated.

Gross Costs. As of September 30, 2022, the DoD reported a Gross Costs balance of $1,040.9 billion. SFFAS No. 4 states that the DoD should report the full costs of outputs in general purpose financial reports and that reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.[24] Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 states that the DoD should provide gross and net cost information related to the amounts of outputs and outcomes for programs or organizations on the Statement of Net Cost.[25] The statement should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. However, DoD Components had material deficiencies related to Gross Costs. These deficiencies included noncompliance with GAAP, insufficient support for transactions related to Gross Costs, and inadequate procedures and internal controls for recording Gross Costs. Therefore, DoD management did not have reliable financial information to effectively manage and understand Gross Costs. As a result, there is an increased risk that the Gross Costs balance in the financial statements may be materially misstated.

Earned Revenue. As of September 30, 2022, the DoD reported an Earned Revenue balance of $219.1 billion. SFFAS No. 7 states that earned revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.[26] However, DoD Components had material deficiencies related to the Earned Revenue line item. The DoD Components' deficiencies included noncompliance with GAAP, inaccurate recording of transactions, and inadequate procedures and internal controls for recording Earned Revenue. Therefore, DoD management did not have reliable financial information to manage earned revenue and effectively evaluate performance. As a result, there is an increased risk that the Earned Revenue balance in the financial statements may be materially misstated.

Reconciliation of Net Cost of Operations to Outlays. SFFAS No. 7 requires the DoD to perform a reconciliation of its proprietary and budgetary data. OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the financial statements. However, DoD Components were unable to support adjustments made to reconcile budgetary and proprietary data on the DoD reporting entities financial statements. The DoD reported a $4.3 billion reconciling difference between the budgetary and

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[24] FASAB Handbook, SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts," July 1995, as amended.

[25] FASAB Handbook, SFFAC No. 2, "Entity and Display," June 1995.

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

proprietary accounts in Note 24 of the Agency-Wide Financial Statements. This reconciling difference occurred because DoD Components did not design and implement internal controls to research and resolve variances between budgetary and proprietary data throughout the reporting period. Therefore, the Agency-Wide Financial Statements did not accurately reflect the financial position of the DoD. As a result, there is an increased risk that balances on the financial statements may be materially misstated.

Budgetary Resources. SFFAS No. 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources. The statement presents total budgetary resources available to the DoD during the period, the status of those resources, and outlays of those resources. However, the balances presented on the DoD Components' Statement of Budgetary Resources were not complete, accurate, or supported. For example, the DoD reported supplemental funding it received during FY 2022 as disbursed because the funds were inappropriately transferred to the Foreign Military Sales Trust Fund, but the DoD did not receive any goods or services in exchange for these funds.[27] Because the DoD and its Components were unable to monitor and properly record their total available budgetary resources, the status of those resources, or outlays of those resources during the reporting period, there is a potential for Antideficiency Act violations and an increased risk that the Statement of Budgetary Resources balances may be materially misstated.

Service Organizations. A service organization provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting. Service organizations perform critical activities across the DoD, such as managing inventory and providing financial services to DoD Components. For example, DFAS is a service organization that provides accounting services to the DoD and its Components. OMB Circular No. A-123 states that service organizations are responsible for providing assurance to their user entities and assisting user entities in understanding the relationship between the service organizations controls and the entity's user controls. If the processes provided by a service organization are significant to a user entity's internal control objectives, then the user entity is responsible for establishing controls that complement the service organization's controls. However,

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[27] Public Law 117-128, "Additional Ukraine Supplemental Appropriations Act, 2022," Title II, "Department of Defense," May 2022.

The Foreign Military Sales Trust Fund was established for the DoD to accept funds from foreign nations to support the sale and purchase of military-related goods to foreign nations. The Foreign Military Sales Trust Fund is not consolidated into the Agency-Wide Financial Statements.

service organizations did not design or implement effective controls to provide the required assurance to user entities. Additionally, user entities did not develop enterprise-wide procedures for the governance and monitoring of service organizations or the design and implementation of complementary user entity controls. Control deficiencies identified at service organizations, in conjunction with those identified at the user entities, decreased the reliability and accuracy of the financial statements. As a result, there is an increased risk that balances in the financial statements may be materially misstated.

Component Entity-Level Controls. The FMFIA requires the DoD to establish internal control and the Green Book defines the standards for internal control in the Government. The Green Book states that internal control is a process used by management to help an entity achieve its objectives. The Green Book also states that the five components of internal control—Control Environment, Risk Assessment, Information and Communication, Control Activities, and Monitoring—must be effectively designed, implemented, and operating together in an integrated matter for an internal control system to be effective. However, DoD Components had control deficiencies related to Control Environment, Risk Assessment, Control Activities, and Monitoring. These deficiencies occurred because DoD Components did not have or did not effectively design, implement, and operate internal controls. Additionally, DoD Components did not implement monitoring activities to resolve internal control deficiencies that could impact their financial statements. As a result, the DoD could not achieve the objectives of reliable financial reporting, operating efficiency and effectiveness, and GAAP compliance. Furthermore, the lack of effective Component entity-level controls increased the risk that the balances in the Agency-Wide Financial Statements may be materially misstated.

DoD-Wide Oversight and Monitoring. The FMFIA establishes management's responsibility for producing reliable financial reports and ensuring proper recording of financial transactions in accordance with GAAP. OMB Circular No. A-123 requires DoD management to establish and integrate internal controls into the DoD's operations, and to continuously monitor, assess, and improve the effectiveness of internal control. However, DoD's business processes allowed DoD Components to make adjustments to their financial statements outside of the reporting system that is used to produce the Agency-Wide Financial Statements, and DoD management does not have sufficient internal controls over these adjustments. As a result, there is a risk that the DoD Component Financial Statements are not complete, and there is a risk that the Agency-Wide Financial Statements could be misstated. Additionally, DoD management lacked sufficient controls over the review of Agency-Wide Financial Statements and related note disclosures. Specifically, DoD management did not review all Component note disclosures to ensure that the Agency-Wide notes were complete and accurate. Furthermore, DoD management did not have sufficient controls to effectively monitor, oversee, and report the execution of all funding within its financial statements and notes. For example, after receiving $10.6 billion in funding through the Coronavirus Aid, Relief, and Economic Security Act, DoD management did not issue comprehensive guidance or have effective internal controls to ensure the DoD Components properly and consistently recorded transactions related to the use these funds.[28] As a result, the DoD is unable to provide transparency over the execution of these funds and could not ensure that the use of these funds were reported appropriately in the Agency-Wide Financial Statements and notes. Without sufficient controls over financial statement adjustments, the preparation of the financial statements and related note disclosures, and the execution and reporting of its funding, there is an increased risk that information presented in the Agency-Wide Financial Statements and notes is materially incomplete or inaccurate.

Identified Significant Deficiencies

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, that is less severe than a material weakness yet important enough to merit the attention of those charged with governance. A description of the three significant deficiencies we identified during our audit are described below.

Risk Management Framework. The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide adequate controls over information security considering the risk of not having those controls in place.[29] OMB Circular No. A-130 requires agencies to develop, implement, document, maintain, and oversee agency-wide information security and privacy programs, including implementing a Risk Management Framework (RMF).[30] NIST SP 800-37, consistent with OMB Circular No. A-130, provides standards and guidance for applying the RMF.[31] Additionally, DoD Instruction 8510.01 requires that the RMF satisfy the requirements of FISMA and that each system implement a set of security controls in accordance with NIST SP 800-53.[32] However, multiple DoD Components have not fully implemented

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

[29] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

[30] OMB Circular No. A-130, "Managing Information as a Strategic Resource," July 2016.

[31] NIST, SP 800-37, "RMF for Information Systems and Organizations," December 2018.

[32] DoD Instruction 8510.01, "Risk Management Framework for DoD Information Technology," May 2016.

RMF for significant financial management systems. For example, DoD Components had not developed valid security plans, created or overseen plans of actions and milestones in a timely manner, or implemented continuous monitoring capabilities as required by the RMF. In addition, multiple DoD Components had not revised their RMF documentation, processes, or procedures to align with NIST SP 800-53, Revision 5. DoD Components that have not implemented the RMF on financially significant systems could expose the DoD's financial data to unidentified security risks. Additionally, the DoD's continued use of systems that are not compliant with RMF standards and guidance may negatively impact financial data, which increased the risk that balances in the financial statements may be misstated.

Accounts Receivable. As of September 30, 2022, the DoD reported a non-Federal Accounts Receivable balance of $9.2 billion. SFFAS No. 1 requires that the DoD recognize a receivable when it establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. However, DoD Components had not developed or implemented effective internal controls to prevent or detect misstatements in non-Federal accounts receivable balances. Additionally, DoD Components did not have sufficient documentation to ensure the completeness and accuracy of non-Federal Accounts Receivable transactions. The DoD has implemented corrective actions to remediate these findings, however, those corrective actions did not fully remediate the deficiencies identified in the non-Federal Accounts Receivable balances. As a result, there is an increased risk that the non-Federal Accounts Receivable balance in the financial statements may be misstated.

Military Housing Privatization Initiative. As of September 30, 2022, the DoD reported a Military Housing Privatization Initiative (MHPI)-related Other Investments balance of $11.4 billion. The Financial Accounting Standards Board, Accounting Standards Codification 323 requires the DoD to report profits and losses allocated to the DoD by private entities as increases or decreases to Other Investments.[33] However, the DoD did not report profits and losses allocated to the DoD by private entities based on its ownership interest as changes to Other Investments. Additionally, the DoD did not report complete and accurate disclosures required under SFFAS No. 49.[34] Overall, the

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[33] Accounting Standards Board, Accounting Standards Codification 323, as updated through September 2022.

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

DoD lacked of accounting policies that complied with GAAP and effective internal controls over MHPI financial reporting. As a result, there is an increased risk that MHPI balances and related notes in the financial statements may be misstated.

Recommendations

This report does not include recommendations to correct the material weaknesses and significant deficiencies. Auditors provided notices of findings and recommendations to DoD and DoD Component management to address the reported material weaknesses and significant deficiencies. In addition, auditors of the DoD reporting entities' financial statements included recommendations within their Reports on Internal Control over Financial Reporting.

Agency Comments

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

Purpose of This Report

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

Lorin T. Venable

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Assistant Inspector General for Audit
Financial Management and Reporting

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November 15, 2022

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

We were engaged to audit the Agency-Wide Financial Statements in accordance with generally accepted government auditing standards (GAGAS); the Office of Management and Budget (OMB) Bulletin No. 22-01; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual."[1] The financial statements are composed of the consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of and for the fiscal years ended September 30, 2022, and September 30, 2021. Our Report on the Financial Statements, dated November 15, 2022, disclaims an opinion on the financial statements because we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Management Responsibilities

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

Auditor's Responsibilities

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

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

determine whether the DoD complied substantially with provisions of applicable laws, regulations, contracts, and grant agreements.[3] The instances of noncompliance identified below could have a direct and material effect on the financial statements, as well as the requirements referred to in Section 803(a) of the FFMIA. We identified instances of noncompliance that could have a direct and material effect on the determination of financial statement amounts the DoD is required to report under GAGAS and the provisions of OMB Bulletin No. 22-01. However, providing an opinion on compliance with the provision of applicable laws, regulations, contracts, and grant agreements was not an objective of our engagement; accordingly, we do not express such an opinion. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Identified Instances of Noncompliance

The Antideficiency Act. The Antideficiency Act (ADA) prohibits the DoD and its agents from making or authorizing expenditures or obligations that exceed the available appropriations or funds.[4] It states that the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. Additionally, the DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. The ADA specifies that if a DoD officer or employee violates the ADA, the Chief Financial Officer must immediately report to the President and Congress all relevant facts and a statement of actions taken in response to the ADA violation. The DoD Financial Management Regulation, volume 14, chapter 3, requires the DoD to complete formal investigations of ADA violations within 15 months.[5] As of September 30, 2022, one completed ADA investigation was reported to the President and Congress containing multiple violations in FY 2022. These violations totaled $3.4 million. Additionally, the DoD identified four ongoing investigations related to potential ADA violations. One of the four investigations had been open for more than 15 months.

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

[4] Public Law 97-258, "Antideficiency Act," September 1982.

[5] DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 3, "Antideficiency Act Violation Process."

Federal Financial Management Improvement Act of 1996. The FFMIA requires DoD management to establish and maintain financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction-level. For areas of FFMIA non-compliance, OMB Circular No. A-136 requires the agency to identify remediation activities that are planned or underway, describing target dates and offices responsible for bringing systems into compliance.[6] We identified that the DoD and its Components did not substantially comply with the FFMIA. In addition, DoD management identified many systems relevant to internal controls over financial reporting that were noncompliant with the FFMIA.

The Federal Managers' Financial Integrity Act of 1982. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires DoD management to perform ongoing evaluations and report on the adequacy of DoD systems of internal accounting and administrative control.[7] OMB Circular No. A-123, which implemented the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with provisions of applicable laws and regulations.[8] We identified DoD Components that did not substantially comply with the FMFIA. In addition, we reported multiple material weaknesses related to FMFIA noncompliance within our Report on Internal Control over Financial Reporting.

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

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

[6] OMB Circular No. A-136, "Financial Reporting Requirements," June 2022.
[7] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982.
[8] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016.
[9] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

Government that are delinquent for over 120 days.[10] We identified one DoD Component that may be noncompliant with the Debt Collection Improvement Act. Specifically, the DoD Component may not have reported debts that were over 120 days delinquent to the Treasury, as required.

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

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

Recommendations

This report does not include recommendations to correct identified noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements. Auditors provided notices of findings and recommendations to DoD and DoD Components management to address reported instances of noncompliance with certain provisions of applicable laws, regulations, contracts, and grant agreements. In addition, auditors of the DoD reporting entities' financial statements included recommendations within their Reports on Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements.

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

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

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

Agency Comments

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

Purpose of this Report

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

Lorin T. Venable

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

PRINCIPAL FINANCIAL STATEMENTS

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

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

1 CONSOLIDATED BALANCE SHEETS

Presents the Department's financial position as of September 30, 2022, and September 30, 2021. Assets reflect the economic benefits controlled by the Department, Liabilities reflect probable future outflows or other sacrifices of resources as a result of past transactions or events, and Net Position reflects the residual amounts.

2 CONSOLIDATED STATEMENTS OF NET COST

Presents the Net Cost of the Department's operations by major program for the years ended September 30, 2022, and September 30, 2021. The Department's Net Cost of Operations is equal to the gross cost incurred net of exchange revenue earned and gains/losses from actuarial assumption changes for Military Retirement Benefits.

3 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

Presents the change in the Department's Net Position that resulted from the Net Cost of Operations, Budgetary Financing Sources, and Other Financing Sources for the years ended September 30, 2022, and September 30, 2021.

4 COMBINED STATEMENTS OF BUDGETARY RESOURCES

Presents information about the Budgetary Resources available to the Department, the year-end status of the resources, and the outlays of resources for the years ended September 30, 2022, and September 30, 2021. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are reflected in the amounts reported on the statement.

Department of Defense
Consolidated Balance Sheets

As of September 30, 2022 and 2021 *(dollar in millions)*	2022 unaudited	Restated 2021 unaudited
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 692,942.6	$ 623,247.2
Investments (Note 5)	1,635,629.5	1,430,646.9
Accounts Receivable, Net (Note 6)	3,232.2	4,564.0
Other Assets (Note 10)	769.3	828.6
Total Intragovernmental Assets	2,332,573.6	2,059,286.7
Total Other than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	1,045.0	1,002.9
Accounts Receivable, Net (Note 6)	9,155.7	6,190.6
Loans Receivable, Net (Note 7)	1,653.5	1,598.3
Inventory and Related Property, Net (Note 8)	337,136.4	327,047.2
General Property, Plant and Equipment, Net (Note 9)	814,654.3	815,891.5
Advances and Prepayments (Note 10)	14,164.5	20,688.6
Investments (Note 5)	11,361.7	11,361.7
Other Assets (Note 10)	39.8	34.3
Total Other than Intragovernmental	1,189,210.9	1,183,815.1
Total Assets	3,521,784.5	3,243,101.8
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	3,853.9	2,994.0
Debt (Note 12)	1,597.7	1,600.5
Advances from Others and Deferred Revenue (Note 15)	3,859.4	3,825.2
Other Liabilities (Notes 13 and 15)	6,283.0	6,487.9
Total Intragovernmental Liabilities	15,594.0	14,907.6
Other Than Intragovernmental:		
Accounts Payable	37,375.4	39,541.8
Federal Employee and Vetaran Benefits Payable (Note 13)	3,578,625.6	2,823,096.4
Environmental and Disposal Liabilities (Note 14)	90,561.1	81,963.4
Loan Guarantee Liabilities (Note 7)	31.0	37.6
Advances from Others and Deferred Revenue (Note 15)	6,194.3	5,699.7
Other Liabilities (Notes 15, 16, and 17)	20,248.3	22,789.4
Total Other Than Intragovernmental	3,733,035.7	2,973,128.3
Total Liabilities	3,748,629.7	2,988,035.9

As of September 30, 2022 and 2021 *(dollar in millions)*	**2022** unaudited	Restated **2021** unaudited
Commitments and Contingencies (Note 17)		
Net Position (Consolidated Totals)		
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	0.0	0.0
Unexpended Appropriations - Funds Other Than Dedicated Collections	612,867.3	552,868.5
Total Unexpended Appropriations (Consolidated)	612,867.3	552,868.5
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	14,314.4	15,186.3
Cumulative Results of Operations - Funds Other Than Dedicated Collections	(854,026.9)	(312,988.9)
Total Cumulative Result of Operations (Consolidated)	(839,712.5)	(297,802.6)
Total Net Position	(226,845.2)	255,065.9
Total Liabilities and Net Position	$ 3,521,784.5	$ 3,243,101.8

The accompanying notes are an integral part of these statements.

Department of Defense
Consolidated Statements of Net Cost

For Years Ended September 30, 2022 and 2021 *(dollar in millions)*	2022 unaudited	Restated 2021 unaudited
Gross Program Costs (Note 19)		
Military Retirement Benefits	$ 227,354.6	$ 141,244.1
Civil Works	12,631.9	12,669.0
Military Personnel	169,083.1	167,230.7
Operations, Readiness & Support	316,028.5	300,067.9
Procurement	141,906.3	124,634.3
Research, Development, Test & Evaluation	157,464.9	133,512.9
Family Housing & Military Construction	16,454.0	14,331.7
Total Gross Program Costs	1,040,923.3	893,690.6
Less: Earned Revenue	(219,097.0)	(155,316.4)
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	821,826.3	738,374.2
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits (Note 13)	526,951.8	82,869.5
Net Cost of Operations	$ 1,348,778.1	$ 821,243.7

The accompanying notes are an integral part of these statements.

Department of Defense
Consolidated Statements of Change in Net Position

For Years Ended September 30, 2022 and 2021 *(dollar in millions)*	2022 unaudited	Restated 2021 unaudited
Unexpended Appropriations		
Beginning Balance (Includes Funds from Dedicated Collections of $0.0 in FY2022 and $0.0 in FY2021 - See Note 18)	$ 552,868.5	$ 569,725.2
Prior Period Adjustments:		
Corrections of Errors	-	-
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $0.0 in FY 2022 and $0.0 in FY 2021 - See Note 18)	552,868.5	569,725.2
Appropriations Received	940,310.4	832,477.7
Appropriations Transferred In/Out	178.0	152.7
Other Adjustments (+/-)	(14,391.3)	(17,662.5)
Appropriations Used	(866,098.3)	(831,824.6)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections of $0.0 in FY 2022 and $0.0 in FY 2021 - See Note 18)	59,998.8	(16,856.7)
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections of $0.0 in FY 2022 and $0.0 in FY 2021 - See Note 18)	612,867.3	552,868.5
Cumulative Results of Operations		
Beginning Balance	(297,802.6)	(332,445.7)
Prior Period Adjustments:		
Changes in Accounting Principles (+/-) (Note 28)	(4,517.3)	3,631.7
Corrections of Errors (+/-) (Note 28)	-	6,830.3
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $15,166.4 in FY2022 and $14,825.4 in FY2021 - See Note 18)	(302,319.9)	(321,983.7)
Other Adjustments (+/-)	(1,232.4)	(86.0)
Appropriations Used	866,098.3	831,824.6
Nonexchange Revenue (Note 20)	2,445.5	1,980.1
Donations and Forfeitures of Cash and Cash Equivalents	109.6	84.3
Transfers In/Out Without Reimbursement	(67,524.6)	1,284.4
Donations and Forfeitures of Property	0.1	22.8
Imputed Financing	5,136.5	5,174.7
Other (+/-)	6,352.5	5,139.9
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of ($210.8) in FY 2022 and ($68.4) in FY 2021 - See Note 18)	1,348,778.1	821,243.7
Net Change in Cumulative Results of Operations (Includes Funds from Dedicated Collections of ($852.0) in FY 2022 and $341.0 in FY 2021 - See Note 18)	(537,392.6)	24,181.1
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections of $14,314.4 in FY 2022 and $15,166.4 in FY 2021 - See Note 18)	(839,712.5)	(297,802.6)
Net Position	$ (226,845.2)	$ 255,065.9

The accompanying notes are an integral part of these statements.

Department of Defense
Combined Statements of Budgetary Resources

For Years Ended September 30, 2022 and 2021 *(dollar in millions)*	2022 unaudited Budgetary	2022 unaudited Non-Budgetary Credit Reform Financing Account	2021 unaudited Budgetary	2021 unaudited Non-Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$ 213,767.1	$ 45.2	$ 211,169.5	$ 52.0
Appropriations (Discretionary and Mandatory)	1,019,527.2	-	905,143.6	-
Borrowing Authority (Discretionary and Mandatory)	-	243.6	-	624.0
Contract Authority (Discretionary and Mandatory)	81,232.0	-	74,016.8	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	150,322.5	35.1	153,707.5	53.1
Total Budgetary Resources	1,464,848.8	323.9	1,344,037.4	729.1
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	1,237,156.1	285.4	1,168,628.6	683.9
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	200,951.6	-	150,483.4	-
Exempt from Apportionment, Unexpired Accounts	3,770.9	-	3,772.9	-
Unapportioned, Unexpired Accounts	662.7	38.5	327.3	45.2
Unexpired Unobligated Balance, End of Year	205,385.2	38.5	154,583.6	45.2
Expired Unobligated Balance, End of Year	22,307.5	-	20,825.2	-
Unobligated Balance, End of Year (Total)	227,692.7	38.5	175,408.8	45.2
Total Budgetary Resources	1,464,848.8	323.9	1,344,037.4	729.1
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	942,950.7	-	908,677.8	-
Distributed Offsetting Receipts (-)	(151,392.2)	-	(125,197.9)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 791,558.5	$ -	$ 783,479.9	$ -
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	$ -	$ 2.3	$ -	$ (55.3)

The accompanying notes are an integral part of these statements.

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NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Mission of the Reporting Entity

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

C. Basis of Presentation

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

To the extent possible, the financial statements have been prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and with U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The Department is unable to fully comply with all elements of GAAP and OMB Circular No. A-136 due to the limitations of financial and non-financial processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Department continues to implement process and system improvements addressing these limitations.

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Accounting for Intragovernmental and Intergovernmental Activities

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

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

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

F. Non-Entity Assets

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

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

G. Fund Balance with Treasury

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

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

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

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

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

H. Cash and Other Monetary Assets

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

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

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

I. Investments

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

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

J. Accounts Receivable

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

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

K. Loans Receivable, Net and Loan Guarantee Liabilities

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

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

As required by SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Part 5 and OMB Circular No. A-136, specify disclosure requirements for government direct loans and loan guarantees.

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

L. Inventories and Related Property

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

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

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

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

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

M. General Property, Plant and Equipment

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

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications/improvements to existing

General PP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250 thousand with the following exceptions:

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

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

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

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

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

N. Other Assets

The Department conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. The Department may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation (FAR), Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement (DFARS) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

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

O. Leases

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

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

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

P. Liabilities

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

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

Q. Environmental and Disposal Liabilities

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

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

R. Other Liabilities

Other Liabilities includes:

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

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

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

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

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

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

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

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

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

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

S. Commitments and Contingencies

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

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

The Department does report environmental contingencies separate from legal contingencies. The legal environmental cases are recorded as legal contingencies.

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

T. Federal Employee and Veteran Benefits

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

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

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

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

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

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

U. Revenues and Other Financing Sources

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

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

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

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

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

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

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

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

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

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

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

V. Recognition of Expenses

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

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

W. Budgetary Resources

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

The following budgetary terms are commonly used:

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

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

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

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

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

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

X. Treaties for Use of Foreign Bases

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

Y. Use of Estimates

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

Z. Parent-Child Reporting

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

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

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

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

AA. Transactions with Foreign Governments and International Organizations

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

dollars is required in advance for each sale.

AB. Fiduciary Activities

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

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

AC. Tax Exempt Status

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

AD. Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet's Net Position section and the parenthetical disclosures on the Statement of Changes in Net Position reflect a revised presentation of funds from dedicated collections and offsetting changes to Other Funds, as required for all significant reporting entities by OMB Circular A-136. This change does not affect total net position. The presentation of the fiscal year 2021 Balance Sheet, Statement of Changes in Net Position and the related footnotes was modified to be consistent with the fiscal year 2022 presentation. In addition, the mapping of U.S. Standard General Ledger (*USSGL*) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, *Section V*. The footnotes affected by the modified presentation of funds from dedicated collections and revisions to USSGL mapping are Note 6, *Accounts Receivable, Net*; Note 10, *Other Assets*; Note 18, *Funds from Dedicated Collections*, and Note 24, *Reconciliation of Net Cost to Net Outlays*.

NOTE 2. NON-ENTITY ASSETS

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

Table 2. Non-Entity Assets

As of September 30 *(dollar in millions)*	**2022**	**Restated 2021**
Intragovernmental Assets		
Fund Balance with Treasury	$ 3,008.1	$ 3,229.2
Accounts Receivable	1.6	0.1
Total Intragovernmental Assets	3,009.7	3,229.3
Non-Federal Assets		
Cash and Other Monetary Assets	980.7	937.2
Accounts Receivable	2,169.5	2,146.5
Other Assets	-	0.2
Total Non-Federal Assets	3,150.2	3,083.9
Total Non-Entity Assets	6,159.9	6,313.2
Total Entity Assets	3,515,624.6	3,236,788.6
Total Assets	$ 3,521,784.5	$ 3,243,101.8

Restatement

The Department corrected a net $5.8 billion understatement of the FY 2021 Accounts Receivable (Intragovernmental), Accounts Receivable (Other than Intragovernmental), Inventory, and General PP&E which affect the FY 2021 Total Entity Assets in Table 2. See Note 28, *Restatements* for further information.

Intragovernmental Assets

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

Non-Federal Assets

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

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

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

NOTE 3. FUND BALANCE WITH TREASURY

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

Table 3. Status of Fund Balance with Treasury

As of September 30 *(dollar in millions)*	2022	Restated 2021
Unobligated Balance		
Available	$ 204,722.5	$ 154,256.3
Unavailable	1,527,309.9	1,325,771.4
Total Unobligated Balance	1,732,032.4	1,480,027.7
Obligated Balance Not Yet Disbursed	606,084.7	599,141.6
Non-Budgetary FBWT		
Clearing accounts	245.8	25.8
Deposit funds	3,050.3	3,282.6
Non-entity and other	136.6	337.6
Total Non-Budgetary FBWT	3,432.7	3,646.0
Non-FBWT Budgetary Accounts		
Investments-Treasury Securities	(1,506,718.2)	(1,311,428.6)
Unfilled Customer Orders without Advance	(99,482.3)	(106,471.3)
Contract Authority	(26,207.6)	(25,678.6)
Borrowing Authority	(822.0)	(658.5)
Receivables and Other	(15,377.1)	(15,331.1)
Total Non-FBWT Budgetary Accounts	(1,648,607.2)	(1,459,568.1)
Total FBWT	$ 692,942.6	$ 623,247.2

Restatements

The Department corrected a net $606.3 million understatement in Unfilled Customer Orders without Advance and a net offsetting overstatement in Receivables and Other. The Total FBWT balance did not change. See Note 28, *Restatements* for further information.

Other Disclosures

The Status of FBWT reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance consists primarily of funds invested in

Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by public laws establishing the funds.
Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

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

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

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

Contract Authority (Spending Authority from Anticipated Collections) does not increase the FBWT when initially posted, but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

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

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

NOTE 4. CASH AND OTHER MONETARY ASSET

Table 4. Cash and Other Monetary Assets

As of September 30 *(dollar in millions)*	2022		2021	
Cash	$	429.7	$	379.6
Foreign Currency		615.3		623.3
Total Cash and Foreign Currency	$	1,045.0	$	1,002.9

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

In FY 2022 and FY 2021, cash includes unrestricted entity assets of $64.3 million and $65.7 million, respectively, comprised of undeposited collections.

NOTE 5. INVESTMENTS AND RELATED INTEREST

As of September 30 *(dollar in millions)*	2022				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 1,323,520.7	Eff. Int.	$ (51,523.1)	$ 1,271,997.6	$ 1,089,007.3
Medicare Eligible Retiree					
Health Care Fund	362,511.6	Eff. Int.	(20,301.2)	342,210.4	317,648.4
U.S. Army Corps of Engineers	9,616.2	Eff. Int.	9.8	9,626.0	9,579.7
Other Funds	2,724.6	Eff. Int.	(54.0)	2,670.6	2,576.2
Total Non-Marketable, Market-Based	1,698,373.1		(71,868.5)	1,626,504.6	1,418,811.6
Accrued Interest	9,124.9		N/A	9,124.9	9,124.9
Total Intragovernmental Securities	1,707,498.0		(71,868.5)	1,635,629.5	1,427,936.5
Other Investments	$ 11,361.7	Eff. Int.	$ -	$ 11,361.7	N/A
Legend for Amortization Methods: Eff. Int. = Effective Interest Method					

As of September 30 *(dollar in millions)*	2021				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 1,146,106.1	Eff. Int.	$ (45,734.6)	$ 1,100,371.5	$ 1,308,521.4
Medicare Eligible Retiree					
Health Care Fund	328,169.9	Eff. Int.	(18,761.5)	309,408.4	376,709.3
U.S. Army Corps of Engineers	9,503.3	Eff. Int.	(28.6)	9,474.7	9,479.1
Other Funds	2,963.9	Eff. Int.	(33.0)	2,930.9	2,941.9
Total Non-Marketable, Market-Based	1,486,743.2		(64,557.7)	1,422,185.5	1,697,651.7
Accrued Interest	8,461.4		N/A	8,461.4	8,461.4
Total Intragovernmental Securities	1,495,204.6		(64,557.7)	1,430,646.9	1,706,113.1
Other Investments	$ 11,361.7	Eff. Int.	$ -	$ 11,361.7	N/A
Legend for Amortization Methods: Eff. Int. = Effective Interest Method					

Other Disclosures – Intragovernmental Securities

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

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

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

The U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of $9.3 billion and $9.1 billion for FY 2022 and FY 2021, respectively, in the Harbor Maintenance Trust Fund.

Other Funds consists primarily of $1.5 billion and $1.7 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund for FY 2022 and FY 2021, respectively, and $1.0 billion in investments of the DoD Education Benefits Trust Fund for FY 2022 and FY 2021.

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

- Zero Coupon Bonds: These bonds do not pay interest, but instead are bought at a larger initial discount. These bonds will mature between August 15, 2033 and August 15, 2035.
- Bonds: Bonds pay interest between 1.875% and 7.625%. The maturity dates for bonds held are between February 15, 2025 and February 15, 2051.
- Notes: Notes pay interest between 2.00% and 2.75%. The maturity dates for notes held are between February 15, 2023 and February 15, 2024.
- Treasury Inflation-Protected Security (TIPS): TIPS pay interest between 0.125% and 3.875%. TIPS also pay inflation compensation so the security maintains its original purchase power over the life of the security. This amount varies with the rate of inflation. The maturity dates for TIPS are between January 15, 2025 and February 15, 2052.
- One Day: MRF invests in One Day securities daily. The interest paid by these securities is determined by the Treasury daily.

Other Disclosures – Other Investments

Total Other Investments consists of Military Housing Privatization Initiative (MHPI) limited partnerships (LP) and limited liability companies (LLC). These business enterprises are designed as public-private partnerships, which are defined as long-term contractual arrangements between the government and the private sector whereby the private partner delivers and funds public services using a capital asset, and shares the associated risks. The Department invests in non-governmental entities involved in the acquisition or construction of family housing and supporting facilities at Army, Air Force, Navy, and Marine Corps installations. The Department provides cash, land, housing or facilities as equity. The Department's involvement in the operations and management of the LP and LLC is governed by evaluating the percentage of ownership interest, along with analyzing the indicators of control, which determines the level of influence over the partnership. See Note 25, *Public-Private Partnerships* for additional information on cash and non-cash contributions to the MHPI limited partnerships.

NOTE 6. ACCOUNTS RECEIVABLE, NET

As of September 30 *(dollar in millions)*	2022		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 3,486.8	$ (254.6)	$ 3,232.2
Non-Federal Receivables (From the Public)	9,905.8	(750.1)	9,155.7
Total Accounts Receivable	$ 13,392.6	$ (1,004.7)	$ 12,387.9

As of September 30 *(dollar in millions)*	Restated 2021		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 4,635.7	$ (71.7)	$ 4,564.0
Non-Federal Receivables (From the Public)	7,192.1	(1,001.5)	6,190.6
Total Accounts Receivable	$ 11,827.8	$ (1,073.2)	$ 10,754.6

Restatements

The Department corrected a $65.5 million overstatement of total accounts receivable which included a $606.3 million overstatement (net) of the FY 2021 Intragovernmental Receivables, as well as a $540.8 million understatement (net) of the FY 2021 Other than Intragovernmental Receivables. See Note 28, Restatements for a summary of all restatements and further information.

Other Disclosures

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

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

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

The Department asserted a claim for $2.2 billion against Pratt & Whitney, seeking recovery of overpayments resulting from a failure to comply with cost accounting standards at 48 CFR 9904.420, Accounting for Independent Research & Development Costs and Bid & Proposal Costs. Pratt & Whitney has disputed the Department's claim and appealed the matter to the Armed Services Board of Contract Appeals where it is currently pending. The Department and Pratt & Whitney are engaged in ongoing discussions concerning the dispute, and upon resolution, the Department will record the result in its financial statements, as appropriate.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

Military Housing Privatization Initiative (MHPI)

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

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

There were no credit program activities subject to the FCRA identified in FY 2022 or FY 2021.

MHPI Loan Modification

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

Loan modifications for the following projects were completed in FY 2022:

1. A forbearance of a government direct loan was completed during the period:

Southern Group – Southern Group submitted a 12-month forbearance request (December 2021 through November 2022) and was OMB approved in December 2021. Due to Basic Allowance for Housing (BAH) lower than forecasted growth and adverse effects of the Moisture Remediation Program at Keesler Air Force Base impacting the number of available units. The Southern Group Project Owner forecasted the project would not be able to fully meet its governmental direct loan obligations and submitted the 12-month forbearance request. The approved forbearance afforded Southern Group additional time to address the remaining scope of the Moisture Remediation Plan. The next phase of Moisture Remediation Plan work and funding was approved by OMB in June 2022.

2. A divestiture of a MHPI project was completed during the period:

Robins I –Based on years of poor financial performance and low ongoing target tenant demand, the Department of Air Force determined that divesting Robins I off-base project was a more cost effective alternative than investing additional funds to improve the project ($4.5 million for direct loan modification versus $50 million for restructure). The divestiture was executed in November 2021 and the Robins I project is no longer part of the Department of Air Force privatized housing portfolio.

The divestiture included a new $31.5 million private loan by way of the following:

- $16.6 million used to fully repay the outstanding principal balance of the existing private loan
- $2.0 million prepayment penalty which eliminated the existing loan guarantee
- $6.3 million proceeds from the new private loan were used to partially pay down the existing direct loan principal balance

- $6.6 million of the remaining direct loan balance was forgiven by the Government through a government direct loan modification.

There were no modifications completed during FY2021.

MHPI Projects Under Review

Currently the following project is under review and subject to possible modification:

In October 2018, Tyndall AFB suffered a direct hit by Hurricane Michael and all 867 privatized units (813 end state and 54 excess units) sustained damage. The Basic Allowance for Housing at Tyndall continues to be suspended. Tyndall provided 42.0% of total Net Operating Income for the AETC I direct loan project consisting of Altus AFB, Oklahoma; Luke AFB, Arizona; Sheppard AFB, Texas; and Tyndall AFB, Florida. In January 2019, OMB approved a 12-month forbearance of the AETC I direct loan, which is in an interest-only period through February 2023 pending the development of a restructuring plan.

The Air Force and project owner adopted a two-phased approach, working closely with the senior lender in establishing a plan to restore and rebuild homes at Tyndall AFB with a central focus on achieving the stated mission of the project. The Phase I Tyndall restoration was approved by OMB on October 4, 2019. The Phase I plan uses funds from the Non-Debt Sized Units (separate units under the same project but which have a separate cash flow waterfall) at the Northern Group and Western Group MHPI projects as a loan to the AETC Group I project through a credit facility to address a funding shortfall in the proposed restoration plan in Phase I. The loan is non-recourse, no interest, and payable at the end of the AETC I lease term. The Phase I plan also included the Air Force take-back of 274 units for demolition, which has been completed. Phase II will include a restructure of the AETC I project to ensure long-term sustainment and is anticipated to include adjustments to the Government Direct Loan and other changes to project deal terms to ensure the viability of the AETC I project through the end of the lease term.

FY2020: At the end of first quarter of FY 2020, the Project Owner experienced delays in receiving the next major tranche of insurance proceeds. Ongoing delays in recovering units at Tyndall AFB may place repayment of the government direct loan at risk as the project is currently using Non-Debt Sized Units loan funds to avoid a default.

FY2021: By the end of FY 2021, 97 homes were online and available for occupancy with the remaining 496 homes to be fully restored.

FY2022: The Department of Air Force received the project owner's initial loan restructure proposal in February 2022 for the funding shortfall and Department of Air Force provided its initial counteroffer in June 2022. As of the end of September 2022, the Department of Air Force was awaiting the project owner's response to develop and submit the scoring package for a mid-point vector check.

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

In response to the Coronavirus Disease 2019 (COVID-19) outbreak, *Executive Order (EO) 13922* issued on May 14, 2020, authorizes the Chief Executive Officer of the U.S. International Development Finance Corporation (*DFC*) to originate and monitor loans on the Department's behalf while the Department maintains responsibility to commit, obligate, invoice and financially report the government direct loans. This delegation of authority applied for the two-year period ending March 27, 2022, during which time the requirements described in section 302(c)(1) of the Defense Production Act (DPA) (*50 U.S.C. 4532(c)(1)*) were waived pursuant to Title III of Division B of the Coronavirus Aid, Relief, and Economic Security Act (*CARES*). The EO delegates DPA loan authority for purchases and commitments to purchase, and takes additional actions to create, maintain, protect, and expand the domestic industrial base capabilities, including supply chains within the United States and its territories needed to respond to the COVID-19 outbreak. Under this authority, commitment letters were signed for three projects on March 26, 2022. In order for a project to continue to move forward, a Finance Agreement must be signed on or before March 26, 2023 otherwise the funds will be de-obligated.

Table 7A. Summary of Direct Loan and Loan Guarantees

As of September 30 *(dollar in millions)*	2022		2021	
Loans Receivable, net				
Direct Loan				
Military Housing Privatization Initiative	$	1,653.5	$	1,598.3
Total Direct Loan		1,653.5		1,598.3
Total Default Loan Guarantees		-		-
Total Loans Receivable, Net	$	1,653.5	$	1,598.3

As of September 30 *(dollar in millions)*	2022		2021	
Loan Guarantee Liabilities				
Military Housing Privatization Initiative		31.0		37.6
Total Loan Guarantee Liabilities	$	31.0	$	37.6

Loans Receivable

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

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

Table 7B. Direct Loans Obligated

As of September 30 *(dollar in millions)*	2022		2021	
Direct Loans Obligated After FY 1991:				
Military Housing Privatization Initiative				
Loans Receivable, Gross	$	1,752.6	$	1,757.3
Allowance for Subsidy Cost (Present Value)		(99.1)		(159.0)
Direct Loans, Net	$	1,653.5	$	1,598.3

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

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

As of September 30 *(dollar in millions)*	2022	2021
Direct Loan Program		
Military Housing Privatization Initiative	$ 36.8	$ 32.3

The $36.8 million disbursement made in 2022 were the fifth and sixth distributions of six scheduled distributions under an existing Air Force direct loan project. The $32.3 million disbursement made in 2021 was the fourth scheduled distributions under the same project. See Table 7D for the related subsidy expense for new direct loans disbursed and further discussion of subsidy expense on Table 7E.

Table 7D. Subsidy Expense for Direct Loan by Program

Table 7D.1. Subsidy Expense for Direct Loan by Program

As of September 30 (dollar in millions)	2022				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ 5.1	$ 4.4	$ -	$ -	$ 9.5

As of September 30 (dollar in millions)	2021				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ 4.5	$ 3.8	$ -	$ -	$ 8.3

Table 7D.2. Direct Loan Modifications and Reestimates

As of September 30 (dollar in millions)	2022			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ (6.6)	$ (11.7)	$ (44.0)	$ (55.7)

As of September 30 (dollar in millions)	2021			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (0.2)	$ 2.4	$ 2.2

Table 7D.3. Total Direct Loan Subsidy Expense

As of September 30 (dollar in millions)	2022	2021
Military Housing Privatization Initiative	$ (52.8)	$ 10.5

See the MHPI Loan Modification section at the beginning of this Note for an explanation of the ($6.6) million Direct Loan Modification in FY 2022.

Table 7E. Budget Subsidy Rates for Direct Loans by Program for the Current Year's Cohorts

As of September 30 *(dollar in millions)*	2022				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2022 and FY 2021; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The budget assumption discount rates are part of the economic assumptions for the budget year of obligation. Economic assumptions include the interest rates used for discounting cash flows, the rate of inflation, and may include other assumptions as applicable to a particular program. They also include the interest rate charged to the borrower on the loan, if the rate is tied to a variable benchmark, such as the rate on specified Treasury securities.

The rates in Table 7E cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from the current year (when applicable) and prior-year loan guarantees. Subsidy expense reported in the current year also includes re-estimates.

The Department is required to re-estimate the subsidy cost throughout the life of each direct loan or loan guarantee to account for differences between the original assumptions of cash flow and actual cash flow or revised assumptions about future cash flow. These re-estimates represent additional costs or savings to the Government, new forecasts about future economic conditions, and other events and improvements in the methods used to estimate future cash flows.

Table 7F. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

As of September 30 *(dollar in millions)*		2022		2021
Beginning Balance of the Subsidy Cost Allowance	$	159.0	$	152.6
Add total subsidy expense for direct loans disbursed during the reporting years shown in Table 7D.1 and 7D.2		9.5		8.3
Adjustments:				
Loan Modifications		(6.6)		-
Subsidy Allowance Amortization		(7.2)		(4.1)
Other		0.1		-
Ending Balance of the Subsidy Cost Allowance before Reestimates		154.8		156.8
Add or subtract total subsidy reestimates as shown in Table 7D.3 and 7D.4		(55.7)		2.2
Ending Balance of the Subsidy Cost Allowance	$	99.1	$	159.0

The data used for budgetary subsidiary cost estimates are updated (re-estimated) annually after the end of the fiscal year to reflect actual loan performance and to incorporate any changes in assumptions about future loan performance. An upward re-estimate indicates that insufficient funds had been paid to the financing account. A downward re-estimate indicates that too much subsidy had previously been paid to the financing account.

In cases where the Department executes a risk category on a loan-by-loan basis, increases or decreases in subsidy cost for different loans within the same cohort and risk category will be netted against each other; that is, loans which require increased subsidies may first draw on the excess from any risk categories within the cohort where the re-estimate shows a subsidy decrease. Characteristics or indicators that may predict cost include the loan-to-value ratio, the relationship between the loan interest rate and relevant market rates, type of school attended for education loans, country risk categories for international loans, various asset or income rations, and major contract terms.

See the MHPI Loan Modification section at the beginning of this Note for an explanation of the ($6.6) million Direct Loan Modification on the table above and on Table 7D.3 for FY 2022.

Table 7G. Defaulted Guaranteed Loans from Post-1991 Guarantees

There were no defaulted loan guarantees in FY 2022 or FY 2021.

Loan guarantee liabilities are reported at the NPV. The cost of the loan guarantee is the NPV of the estimated projected cash flows of payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Department including origination and other fees, penalties, and recoveries.

In estimating default costs, the following risk factors are considered: (a) loan performance experience; (b) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (c) financial and other relevant characteristics of borrowers; (d) the value of collateral to the loan balance; (e) changes in recoverable value of collateral; and (f) newly developed events that would affect the performance of the loan. Improvements in methods to re-estimate defaults are also considered.

Table 7H. Guaranteed Loans Outstanding

AS OF SEPTEMBER 30 *(dollar in millions)*	2022		2021	
	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$ 816.6	$ 816.6	$ 924.8	$ 924.8

Table 7I. Liabilities for Loan Guarantees (Present Value)

As of September 30 *(dollar in millions)*	2022	2021
Liability for Post-FY1991 (Present Value):		
Military Housing Privatization Initiative	$ 31.0	$ 37.6
Total Loan Guarantee Liabilities for Loan Guarantees	$ 31.0	$ 37.6

Table 7J. Subsidy Expense for Loan Guarantees by Program

Table 7J.1. Subsidy Expense for New Loan Guarantees

There were no subsidy expenses for new loan guarantees in FY 2022 or FY 2021

Table 7J.2. Modification and Reestimates

As of September 30 *(dollar in millions)*	2022			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (1.9)	$ (5.7)	$ (7.6)

As of September 30 *(dollar in millions)*	2021			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (1.8)	$ (5.8)	$ (7.6)

Table 7J.3. Total Loan Guarantee Subsidy Expense

As of September 30 *(dollar in millions)*	2022	2021
Military Housing Privatization Initiative	$ (7.6)	$ (7.6)

Table 7K. Budget Subsidy Rates for Loan Guarantees by Program for the Current Year's Cohorts

As of September 30 *(dollar in millions)*	2022				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2022 and FY 2021; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

These rates cannot be applied to loan guarantees disbursed during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes re-estimates. The subsidy expense for new loan guarantees reported in the current year results from both current year (when applicable) and prior-year agreements.

Table 7L. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

As of September 30 *(dollar in millions)*	2022	2021
Beginning Balance of the Loan Guarantee Liabilities	$ 37.6	$ 44.1
Add interest expense on entity borrowings	0.9	1.1
Less downward reestimates	(7.5)	(7.6)
Ending Balance of the Loan Guarantee Liabilities	$ 31.0	$ 37.6

Table 7M. Loans Receivable Rollforward

As of September 30 *(dollar in millions)*	**2022**	
Beginning Balance of the Loans Receivable, Net	$	1,598.3
Add Loan Disbursements		36.8
Less Principal and Interest Payments Received		(35.0)
Subsidy Expense		(9.5)
Upward Resstimate		(30.7)
Downward Resstimate		86.5
Subsidy Allowance Amortization		7.1
Loan Modifications		(6.6)
Allowance for Loan and Interest Loss Adjustments		6.6
Ending Balance of Loans Receivable, Net	$	1,653.5

Administrative Expenses

Administrative Expenses are limited to separately identified expenses in support of the direct loan program and the loan guarantee program.

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Table 8A. Inventory and Related Property, Net

As of September 30 *(dollar in millions)*	2022	Restated 2021
Inventory, Net	$ 117,167.2	$ 111,752.1
Operating Materiels & Supplies, Net	218,934.2	214,243.8
Stockpile Materiel, Net	1,035.0	1,051.3
Total Inventory and Related Property, Net	$ 337,136.4	$ 327,047.2

Restatement

The Department corrected a $107.6 million understatement (net) of FY 2021 Inventory, Net. See Table 8B. Inventory, Net for further information. Also, see Note 28, *Restatements* for a summary of all restatements for further information.

Table 8B. Inventory, Net
Inventory Categories

As of September 30 *(dollar in millions)*	2022			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$ 75,219.2	$ (60.9)	$ 75,158.3	LAC, MAC
Held in Reserve for Future Sale	925.9	-	925.9	LAC, MAC
Held for Repair	45,145.5	(6,933.9)	38,211.6	LAC, MAC
Raw Materials	1,354.0	-	1,354.0	LAC, MAC, SP
Work-in-Process	1,517.4	-	1,517.4	LAC, MAC
Excess, Obsolete and Unserviceable	838.9	(838.9)	-	NRV
Total	$ 125,000.9	$ (7,833.7)	$ 117,167.2	

As of September 30 *(dollar in millions)*	Restated 2021			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$ 71,280.3	$ (163.2)	$ 71,117.1	LAC, MAC
Held in Reserve for Future Sale	895.6	-	895.6	LAC, MAC
Held for Repair	42,855.0	(6,092.6)	36,762.4	LAC, MAC
Raw Materials	1,376.6	-	1,376.6	LAC, MAC
Work-in-Process	1,600.4	-	1,600.4	LAC, MAC, SP
Excess, Obsolete and Unserviceable	682.4	(682.4)	-	NRV
Total	$ 118,690.3	$ (6,938.2)	$ 111,752.1	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost, adjusted for holding gains and losses
NRV = Net Realizable Value
SP = Standard Price
MAC = Moving Average Cost

General Composition of Inventory

Inventory is tangible personal property that is held for sale, a few examples include raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns types of inventory to a category based on condition: held for sale, held in reserve for future sale, held for repair, raw materials, work-in-process, and excess, obsolete, and unserviceable.

During FY 2022, the Department restated FY 2021 Inventory balances. By category, the correction was for an understatement of Held for Sale of $49.5 million; an understatement of Held in Reserve for Future Sale of $23.1 million; and an understatement of Work-in-Process of $35.0 million. See Note 28, *Restatements* for a summary of all restatements and further information.

Inventory Restrictions

The following types of inventory are subject to restrictions on use, sale, or disposition:

- Inventories maintained as war reserve materiel in accordance with *DoD Instruction 3110.06* with a recorded value of $3.6 billion in FY 2022 ($4.7 billion in FY 2021), consisting of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces.
- Defense Commissary Agency inventory with a recorded value of $417.8 million in FY 2022 ($343.0 million in FY 2021), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons.
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of $107.2 million in FY 2022 ($96.8 million in FY 2021).

There are no known restrictions on inventory disposition related to environmental or other liabilities.

Operating Materiels and Supplies, Net
Table 8C. OM&S Categories

As of September 30 *(dollar in millions)*	2022			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$ 159,248.6	$ -	$ 159,248.6	Note 1
Held in Reserve for Future Use	24,425.5	-	24,425.5	Note 1
Held for Repair	31,214.9	(1,072.8)	30,142.1	Note 1
In Development	5,043.9	-	5,043.9	Note 1
Excess, Obsolete and Unserviceable	634.4	(560.3)	74.1	NRV
Total	$ 220,567.3	$ (1,633.1)	$ 218,934.2	

As of September 30 *(dollar in millions)*	Restated 2021			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$ 154,293.2	$ -	$ 154,293.2	Note 1
Held in Reserve for Future Use	23,193.0	-	23,193.0	Note 1
Held for Repair	32,497.1	(924.3)	31,572.8	Note 1
In Development	5,184.8	-	5,184.8	Note 1
Excess, Obsolete and Unserviceable	691.6	(691.6)	-	NRV
Total	$ 215,859.7	$ (1,615.9)	$ 214,243.8	

Legend for Valuation Methods:
Note 1: Direct Method, Historical Cost, Moving Average Cost, Replacement Price, Standard Price, and Latest Acquisition Cost
NRV = Net Realizable Value

General Composition of OM&S

OM&S consists of tangible personal property to be consumed in normal operations, including spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns types of OM&S to a category based on condition: held for use, held in reserve for future use, held for repair, in development, and excess, obsolete, and unserviceable.

OM&S Restrictions

Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements based on condition. However, obsolete and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

Stockpile Material, Net
Table 8D. Stockpile Materiel Categories

As of September 30 (dollar in millions)	2022						
	Stockpile Material, Gross Value		Allowance for Gains (Losses)		Stockpile Materiel, Net		Valuation Method
Held for Sale	$	11.9	$	-	$	11.9	MAC, HC
Held in Reserve for Future Sale		1,023.1		-		1,023.1	MAC, HC
Total	$	1,035.0	$	-	$	1,035.0	

As of September 30 (dollar in millions)	Restated 2021						
	Stockpile Material, Gross Value		Allowance for Gains (Losses)		Stockpile Materiel, Net		Valuation Method
Held for Sale	$	10.1	$	-	$	10.1	MAC, HC
Held in Reserve for Future Sale		1,041.2		-		1,041.2	MAC, HC
Total	$	1,051.3	$	-	$	1,051.3	

Legend for Valuation Methods:
MAC = Moving Average Cost

General Composition of Stockpile Materiel

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies.

- The Defense Logistics Agency's (DLA) National Defense Stockpile Transaction Fund reported stockpile materiel for FY 2022 and FY 2021 with a net value of $762.6 million and $809.3 million, respectively.
- The Defense Health Programs (DHP) reported stockpile materiel with a net value of $256.4 million for FY 2022 and $242.0 million for FY 2021.
- The Department of Navy reported stockpile material with a net value of $15.9 million for FY 2022 and $16.8 million for FY 2021.

Stockpile Materiel Restrictions

Materiel held by the National Defense Stockpile is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed of except for (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) when determined excess materials will contribute to a potential financial loss if retained; or (4) authorization by law.
Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale. Stockpile materiel held for sale includes ores, metals, and alloys authorized for sale. For additional information on Defense Logistics Agency's mission related to the National Defense Stockpile, please see: *DLA Strategic Materials*.

The DHP and Navy's stockpile materiel includes medicine, vaccines and other biological products, medical devices and other supplies.

The COVID-19 vaccine is not reported by the Department as Inventory and Related Property, as stockpile materiel or other inventory categories, or as other assets. The title for COVID-19 vaccine handled by the Department does not transfer to the Department. Defense Logistics Agency's role is a courier service on behalf of the U.S. Department of Health and Human Services (*HHS*), and DHP's role is administering the vaccine. However, neither role provides for the transfer of title to DoD.

NOTE 9. GENERAL PP&E, NET

Table 9A. Major General PP&E Asset Classes

As of September 30 (dollar in millions)	2022				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	$ 9,136.2	N/A	$ 9,136.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	375,733.1	(217,411.8)	158,321.3
Leasehold Improvements	S/L	Lease Term	878.4	(521.1)	357.3
Software	S/L	2 - 5 or 10	15,184.5	(7,346.7)	7,837.8
General Equipment	S/L	Various	1,200,649.4	(731,003.8)	469,645.6
Assets Under Capital Lease	S/L	Lease Term	320.2	(264.8)	55.4
Construction in Progress	N/A	N/A	169,102.5	N/A	169,102.5
Other	N/A	N/A	1,905.0	(1,706.8)	198.2
Total General PP&E			$ 1,772,909.3	$ (958,255.0)	$ 814,654.3

As of September 30 (dollar in millions)	Restated 2021				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
Land	N/A	N/A	$ 9,110.0	N/A	$ 9,110.0
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	350,228.5	(187,752.8)	162,475.7
Leasehold Improvements	S/L	Lease Term	884.5	(494.2)	390.3
Software	S/L	2 - 5 or 10	15,100.7	(7,321.3)	7,779.4
General Equipment	S/L	Various	1,190,861.6	(719,972.3)	470,889.3
Assets Under Capital Lease	S/L	Lease Term	367.1	(303.5)	63.6
Construction in Progress	N/A	N/A	164,907.3	N/A	164,907.3
Other	N/A	N/A	871.9	(596.0)	275.9
Total General PP&E			$ 1,732,331.6	$ (916,440.1)	$ 815,891.5

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method
* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings

The Department's General PP&E consists primarily of buildings and structures, furniture and fixtures, equipment, vehicles, internal use software, and land. A building is a roofed and floored facility with exterior walls and one or more levels suitable for single or multiple functions, including protecting human beings and enclosing property from direct harsh effects of weather and other natural factors (e.g., office building, hospital, housing, and museum). A linear structure is a facility whose function requires traversing land (e.g., runway, road, rail line, pipeline, fence, pavement, and electrical distribution line). A structure is a facility, other than a building or linear structure, constructed on or in the land (e.g., bridge, dam, and parking garage).

Restatement

The Department corrected a $5.7 billion understatement of the FY 2021 PP&E balance. Buildings, Structures, and Facilities was understated by $4.8 billion; Leasehold Improvements was understated by $96.3 million; Software was understated by $1.1 billion; General Equipment was understated by $1.1 billion; Construction-in-Progress was overstated by $1.4 billion; and Other was understated by $0.8 million. See Note 28, *Restatements*, for a summary of all restatements and further information.

Other Disclosures

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Department's use and disposal of real property (land and buildings) located outside the United States.

The Department uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The FASAB issued *SFFAS 50*, permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD consolidation entities used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD consolidation entities are excluded from General PP&E opening balances in FY 2022, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 22,958,006 and 23,566,363 in FY 2022 and FY 2021, respectively.

Other General PP&E includes Real Property held in Caretaker Status. Caretaker Status is defined as property under the legal jurisdiction of the Department, such as Base Realignment and Closure assets, awaiting further disposition, sale, or transfer to another entity.

Heritage Assets and Stewardship Land

SFFAS 29 provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. The Department's policy is to preserve its Heritage Assets, which are items of historical, cultural, educational, or artistic importance.

As the Department executed their mission to provide the military forces needed to deter war and protect the security of our country, they have become a large scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's Heritage Assets and Stewardship Land is an essential part of the Department's mission.

The Department, with minor exceptions, uses the Buildings and Stewardship Land in its daily activities and includes the Buildings on the Balance Sheet as Multi-Use Heritage Assets. Multi-Use Heritage Assets are recognized and presented with General PP&E in the basic financial statements, and additional information for the Multi-Use Heritage Assets is included with the Heritage Assets information below and in the Required Supplementary Information section.

The Department is unable to identify quantities of Heritage Assets and Stewardship Land added through donation or devise (e.g., a clause in a will leaving real estate to the Department) due to limitations of financial and non-financial management processes and systems. However, the Department continues to progress towards this goal. The Department is also working towards disclosing transfers of Heritage Assets and Stewardship Land, as well as establishing standardized methods for acquisition and withdrawal. The Heritage Asset quantities for Museum Collection Items (Objects, Not Including Fine Art) increased by 32,509 pieces between the FY 2021 ending unit counts and the FY 2022 beginning unit counts. The differences in heritage asset quantities resulted from periodic reviews.

The Department acquires heritage assets through purchase, transfer from other agencies, donation, or other means. The Department designates General PP&E assets as heritage assets and withdraws such designations through the accessioning and deaccessioning procedures for collections or through evaluation in compliance with the *National Historic Preservation Act*, as amended. Designation is in accordance with the standards articulated with the collection scopes and collecting plans or by application of the criteria of the *National Register of Historic Places*. Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. In accordance with the National Historic Preservation Act, the Department defines these as follows:

- Buildings and Structures listed, or eligible for listing, on the National Register of Historic Places, including multi-use heritage assets.
- Archeological Sites listed, or eligible for listing, on the National Register of Historic Places.
- Museum Collection Items considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

Table 9B. Heritage Assets

For the period ended September 30, 2022 ***(physical unit count)***	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	28,963	1,208	(473)	29,698
Archeological Sites	13,763	539	-	14,302
Museum Collection Items (Objects, Not Including Fine Art)	1,281,807	59,962	(11,442)	1,330,327
Museum Collection Items (Objects, Fine Art)	55,771	759	(19)	56,511

Stewardship Land represents land and land rights owned by the Department, but not acquired for, or in connection with items of General PP&E. Regardless of its use, all land from the public domain provided to the Department at no cost is classified as Stewardship Land.

The Department uses Stewardship Land for military bases, installations, training ranges, or other military mission related functions.

Stewardship Land is categorized by facility type and reported in acres based on the predominant use of the land.

Table 9C. Stewardship Land

For the period ended September 30, 2022 *(acres in thousands)*					
Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	8,243	-	(150)	8,093
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	2,660	-	(1)	2,659
9140	Public Land	6	-	-	6
Total Stewardship Land		10,909	-	(151)	10,758
9130	Licensed and Permitted Land	-	-	-	-
9210	Land Easement	-	-	-	-
9220	In-leased Land	-	-	-	-
9230	Foreign Land	-	-	-	-
Total All Other Land		-	-	-	-
Grand Total		10,909	-	(151)	10,758

The four categories of Stewardship Land Government Owned Land, State Owned Land, Withdrawn Public Land (not available for settlement, sale, location, or entry), and Public Land (held by local governments) are held in public trust.

All Other Land consists of Licensed and Permitted Land, Land Easement, In-Leased Land, and Foreign Land. These categories are not considered Stewardship Land.

The Department's methods of acquisition and withdrawal of Stewardship Land are as follows:

- Acquiring additional land through donation or withdrawals from public domain
- Identifying missing land records
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD Component
- Identifying cemeteries and historical facilities
- Disposing of BRAC property or excess installations
- Privatizing residential community initiatives programs

Summary of Activity

To support the *Financial Report of the United States Government* compilation process for General PP&E, Net activity for the current and prior years are provided in Table 9D.

Summary of Activity
Table 9D. General PP&E, Net - Summary of Activity

As of September 30 *(dollar in millions)*	2022	Restated 2021
General PP&E, Net beginning of year	$ 815,891.4	$ 798,959.1
Capitalized acquisitions	76,285.7	79,464.4
Dispositions	(3,864.8)	(2,971.1)
Transfer in/(out) without reimbursement	(3,898.2)	485.1
Revaluations(+/-)	(9,753.8)	1,554.6
Depreciation expense	(58,644.4)	(59,798.2)
Donations	0.1	-
Other(+/-)	(1,361.7)	(1,802.4)
General PP&E, Net end of year	$ 814,654.3	$ 815,891.5

NOTE 10. OTHER ASSETS

Table 10. Other Assets

As of September 30 *(dollar in millions)*	2022		2021	
Intragovernmental				
Advances and Prepayments	$	646.0	$	705.3
Other Assets		123.3		123.3
Total Intragovernmental		769.3		828.6
Other than Intragovernmental				
Outstanding Contract Financing Payments		11,609.2		19,088.1
Advances and Prepayments		2,555.3		1,600.5
Other Assets		39.8		34.3
Subtotal		14,204.3		20,722.9
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"		(14,164.5)		(20,688.6)
Net Other than Intragovernmental		39.8		34.3
Total Other Assets	$	809.1	$	862.9

Intragovernmental

Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred, such as prepaid rent.

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of $123.3 million in FY 2022 and FY 2021), held by the Department of Energy. In accordance with the Department of *Defense Appropriations Act of 1993*, these assets are maintained as a *Strategic Petroleum Reserve* for national defense purposes. For the first time in FY 2021, the USSGL used to record these assets was included in Intragovernmental Accounts Receivable on Note 6, *Accounts Receivable, Net.* However, for FY 2022 Treasury reversed the change back to Other Assets. See Note 1 AD., Summary of Significant Accounting Policies, Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation for additional information.

Other than Intragovernmental

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, are Department cash disbursements to a contractor under the contract prior to Department acceptance of goods and services.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets excluding those made as Outstanding Contract Financing Payments.

In FY 2022 and FY 2021, Other Assets (Other than Intragovernmental) consists primarily of General PP&E that was permanently removed from service but not yet disposed and of payment for goods which would not be properly classified as a prepayment or advance.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30 *(dollar in millions)*	2022	Restated 2021
Intragovernmental Liabilities		
Accounts payable	$ 31.4	$ 47.5
Other	2,187.2	2,166.0
Total Intragovernmental Liabilities	2,218.6	2,213.5
Other than Intragovernmental Liabilities		
Accounts payable	3,755.0	3,218.2
Federal employee and veteran benefits payable	2,084,378.7	1,524,057.7
Environmental and disposal liabilities	86,219.4	79,266.7
Other liabilities	3,757.4	3,405.6
Total Other than Intragovernmental Liabilities	2,178,110.5	1,609,948.2
Total Liabilities Not Covered by Budgetary Resources	2,180,329.1	1,612,161.7
Total Liabilities Covered by Budgetary Resources	1,564,918.1	1,372,267.4
Total Liabilities Not Requiring Budgetary Resources	3,382.5	3,606.8
Total Liabilities	$ 3,748,629.7	$ 2,988,035.9

Restatement
The Department corrected a net $178.0 million overstatement of Total Liabilities Covered by Budgetary Resources. See Note 28, *Restatements* for a summary of all restatements and further information.

Intragovernmental Liabilities
Accounts payable consists primarily of amounts due for unfunded [Judgment Fund] liabilities.

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

Other than Intragovernmental Liabilities
Accounts Payable primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consisted of $1.3 trillion and $920.6 billion in pension liabilities and $726.5 billion and $582.5 billion in health benefit liabilities in FY 2022 and FY 2021, respectively. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details.

Environmental and Disposal Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal. Refer to Note 14, *Environmental and Disposal Liabilities*, for additional details.

In FY 2022 and FY 2021, Other Liabilities consists primarily of expected expenditures for the unfunded non-environmental disposal of conventional munitions and contingent liabilities.

Total Liabilities
Budgetary Resources, which covers liabilities, include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without having to first meet a contingency.

Liabilities Not Covered by Budgetary Resources require future congressional action before budgetary resources can be provided; whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurred, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Liabilities Not Requiring Budgetary Resources are covered by monetary assets that are not budgetary resources to the entity. In FY 2022 and FY 2021, Liabilities Not Requiring Budgetary Resources primarily consist of deposit funds which are used to record amounts held temporarily until paid to the appropriate government or public entity. In prior years, these amounts were reported as Liabilities Covered by Budgetary Resources.

NOTE 12. DEBT

Table 12. Debt

As of September 30 *(dollar in millions)*	2022 Beginning Balance	2022 Net Borrowing	2022 Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 1,600.5	$ (2.8)	$ 1,597.7
Total Agency Debt	1,600.5	(2.8)	1,597.7
Total Debt	$ 1,600.5	$ (2.8)	$ 1,597.7

As of September 30 *(dollar in millions)*	2021 Beginning Balance	2021 Net Borrowing	2021 Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 1,662.6	$ (62.1)	$ 1,600.5
Total Agency Debt	1,662.6	(62.1)	1,600.5
Total Debt	$ 1,662.6	$ (62.1)	$ 1,600.5

The Department's debt consists of principal amounts due to the Treasury when borrowing funds from the Treasury for the Military Housing Privatization Initiative (MHPI). The Department establishes debt when MHPI borrows funds from the Treasury to provide loans to the private sector for the acquisition, construction and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the Treasury. See Note 7, *Loan Receivable, Net and Loan Guarantee Liabilities*, for more information pertaining to the MHPI direct loan program.

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

The Department complies with the requirements of *SFFAS 33*, which directs that the long-term discount rate, underlying inflation rate, (cost of living adjustment [COLA]) and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. SFFAS 33 also requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions and other retirement and postemployment benefits. SFFAS 33 provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

Table 13A. Federal Employee and Veteran Benefits Liability

As of September 30 *(dollar in millions)*	2022		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 2,513,153.0	$ (1,175,813.8)	$ 1,337,339.2
Military Pre Medicare-Eligible Retiree Health Benefits	295,085.6	-	295,085.6
Military Medicare-Eligible Retiree Health Benefits	747,145.4	(315,719.7)	431,425.7
Total Pension and Health Benefits	3,555,384.0	(1,491,533.5)	2,063,850.5
Other Benefits			
FECA	4,865.5	-	4,865.5
Voluntary Separation Incentive Programs	107.8	(50.3)	57.5
DoD Education Benefits Fund	567.0	(567.0)	-
Other	17,701.3	(2,096.1)	15,605.2
Total Other Benefits	23,241.6	(2,713.4)	20,528.2
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	3,578,625.6	(1,494,246.9)	2,084,378.7
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,800.5	(840.2)	960.3
Total Federal Employee and Veteran Benefits Payable	$ 3,580,426.1	$ (1,495,087.1)	$ 2,085,339.0

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.4 trillion

As of September 30 *(dollar in millions)*	2021 Liabilities	2021 (Assets Available to Pay Benefits)	2021 Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 1,928,444.6	$ (1,007,817.7)	$ 920,626.9
Military Pre Medicare-Eligible Retiree Health Benefits	256,828.6	-	256,828.6
Military Medicare-Eligible Retiree Health Benefits	609,423.6	(283,822.0)	325,601.6
Total Pension and Health Benefits	2,794,696.8	(1,291,639.7)	1,503,057.1
Other Benefits			
FECA	5,230.7	-	5,230.7
Voluntary Separation Incentive Programs	136.5	(62.5)	74.0
DoD Education Benefits Fund	565.8	(565.8)	-
Other	22,466.6	(6,770.7)	15,695.9
Total Other Benefits	28,399.6	(7,399.0)	21,000.6
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	2,823,096.4	(1,299,038.7)	1,524,057.7
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	2,174.4	(1,181.4)	993.0
Total Federal Employee and Veteran Benefits Payable	$ 2,825,270.8	$ (1,300,220.1)	$ 1,525,050.7

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.7 trillion

Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employee Benefit

As of September 30 *(dollar in millions)*	2022				
	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$ 1,928,444.6	$ 256,828.6	$ 609,423.6	$ 702.3	$ 2,795,399.1
Plus Expense:					
Normal Cost	42,788.2	11,689.8	13,341.6	86.8	67,906.4
Interest Cost	55,578.1	8,680.8	20,359.5	15.7	84,634.1
Plan Amendments	72,570.3	-	-	-	72,570.3
Experience Losses (Gains)	103,967.3	7,117.5	(12,707.4)	8.3	98,385.7
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	274,903.9	27,488.1	20,993.7	110.8	323,496.5
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	15,332.9	107,935.4	-	123,268.3
Changes in Assumptions Other Than Trend	376,682.6	6,452.8	20,509.7	38.4	403,683.5
Losses (Gains) from Actuarial Assumption Changes	376,682.6	21,785.7	128,445.1	38.4	526,951.8
Total Expenses	651,586.5	49,273.8	149,438.8	149.2	850,448.3
Less: Benefit Outlays	66,878.1	11,016.8	11,717.0	176.7	89,788.6
Total Changes in Actuarial Liability	584,708.4	38,257.0	137,721.8	(27.5)	760,659.7
Ending Actuarial Liability	$ 2,513,153.0	$ 295,085.6	$ 747,145.4	$ 674.8	$ 3,556,058.8

As of September 30 (dollar in millions)	2021 Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$ 1,794,054.2	$ 270,264.7	$ 576,131.0	$ 849.7	$ 2,641,299.6
Plus Expense:					
Normal Cost	38,335.4	12,950.9	12,385.5	92.4	63,764.2
Interest Cost	57,027.1	9,166.3	19,234.9	20.4	85,448.7
Plan Amendments					-
Experience Losses (Gains)	47,367.4	(11,604.9)	(28,762.5)	25.3	7,025.3
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	142,729.9	10,512.3	2,857.9	138.1	156,238.2
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(13,958.7)	8,419.5	-	(5,539.2)
Changes in Assumptions Other Than Trend	54,100.3	995.7	33,386.0	(73.2)	88,408.8
Losses (Gains) from Actuarial Assumption Changes	54,100.3	(12,963.0)	41,805.5	(73.2)	82,869.6
Total Expenses	196,830.2	(2,450.7)	44,663.4	64.9	239,107.8
Less: Benefit Outlays	62,439.8	10,985.4	11,370.8	212.3	85,008.3
Total Changes in Actuarial Liability	134,390.4	(13,436.1)	33,292.6	(147.4)	154,099.5
Ending Actuarial Liability	$ 1,928,444.6	$ 256,828.6	$ 609,423.6	$ 702.3	$ 2,795,399.1

The Other column is actuarial liability activity related to the Voluntary Separation Incentive Program and the DoD Education Benefits Fund.

Pension and Health Benefits

Military Retirement Pensions

The Military Retirement Fund (MRF) is a non-revolving trust fund. Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

The MRF is authorized by the *NDAA for FY 1984* to accumulate funds to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer defined benefit plan. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System (*BRS*) is the retirement benefit provision that merges aspects of both a defined benefit annuity with a defined contribution account through the Thrift Savings Plan (*TSP*). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution. In addition, the *NDAA for FY*

2021, §§ 8224-8225 requires the U.S. Coast Guard (USCG) be covered by the MRF for funding purposes no later than the beginning of FY 2023. The USCG actuarial liability is reflected on the Department's financial statements as of September 30, 2022.

Information Related to Military Retirement Fund Benefit Liabilities

Each year the actuarial liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost; however, it is a complex calculation impacted by the other factors previously discussed, including updated actuarial assumptions, plan amendments, and experience.

The increase in the FY 2022 actuarial liability results from the plan amendment related to the USCG, updated actuarial assumptions, and experience. The plan amendment of $72.6 billion includes the transfer in from the USCG of its actuarial liability of $63.6 billion as of September 30, 2022 and a $9.0 billion increase on the same date based on recalculation of the liability using MRF's actuarial methods and assumptions which are different than those that were used by the USCG. In addition, the net impact of the updated actuarial assumptions on the FY 2022 actuarial liability is an increase of $376.7 billion. The updated long-term economic assumptions under SFFAS 33 increased the liability by $319.5 billion and are as follows, comparing FY 2022 to FY 2021: 2.8% discount rate compared to 2.9%; 2.3% COLA compared to 1.6%; 2.3% across-the-board salary increase compared to 2.0%. Updated non-economic actuarial assumptions increased the actuarial liability by $57.2 billion.

The first column of Table 13A reflects two distinct types of liabilities related to MRF. The line entitled "Military Retirement Pensions" represents the actuarial liability for future pension benefits not yet paid, i.e., the present value of future benefits less the present value of future normal costs. The line entitled "Other" represents retirement benefits due and payable on the first business day of the next reporting period.

The second column of Table 13A for MRF, "Assets Available to Pay Benefits," differs from those reported on the balance sheet for MRF. MRF's balance sheet assets consist primarily of investments, the value of which is based on the fully amortized cost, "book value," of the securities (see Note 5, *Investments and Related Interest*). The value of assets available to pay benefits presented in Table 13A is based on available budgetary funding. The difference between investments and assets available to pay benefits is the premium on U.S. Treasury Securities. At the time of purchase, budgetary funding is reduced by the premium on U.S. securities because the premium on securities is no longer a budgetary resource.

Table 13A also discloses the "Unfunded Liabilities", i.e. liabilities not covered by budgetary resources, which is the difference between the "Liabilities" and the "Assets Available to Pay Benefits."

Information Related to MRF's Actuarial Cost Method

As prescribed by law, the MRF is funded using the Aggregate Entry-Age Normal (AEAN) method. Per SFFAS 5, AEAN is also used to compute the actuarial liabilities reported herein. AEAN is a method whereby the costs of future retirement and survivor benefits for a new entrant cohort are spread over the projected salaries of that group.

Assumptions listed in Table 13C are used by the OACT to calculate the FY 2022 actuarial liability.

Table 13C. Actuarial Assumptions for Military Retirement Pension Liability

Projection Year	Inflation (COLA)	Salary	Interest
FY 2022	5.9% (actual)	2.7% (actual)	N/A
FY 2023	8.7% (estimated)	4.6% (estimated)	2.8%
Long Term	2.3%	2.3%	2.8%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $1,089.0 billion
Assumed Interest Rate: 2.8%

Historically, the initial unfunded liability of the program was amortized over a 50-year period. Effective FY 2008, the initial unfunded liability is amortized over a 42-year period to ensure annual payments cover interest on the unfunded actuarial liability, with the last payment expected October 1, 2025. All subsequent gains and losses experienced by the system are amortized over a period determined by a weighted average using 30 years for the new gain or loss and the remaining period for the existing unamortized balance. At its July 2021 meeting, the Board decided to reset the period for benefit, assumptions, and experience gains and losses to 20 years on a combined, layered (projected) basis. Chapter 74 of Title 10, United States Code (U.S.C.), requires the Board approve the methods and assumptions used to (1) compute actuarial costs and liabilities for funding purposes, (2) amortize the initial unfunded liability, and (3) amortize all actuarial gains and losses. The Board is a Federal Advisory Committee appointed by the Secretary of Defense.

The Board will determine the amortization schedule for the USCG initial unfunded liability in the 2023 Board meeting, and the first amortization payment is scheduled to be made on October 1, 2023.

Information Related to MRF's Revenues

The MRF receives revenues from three sources: (1) interest earnings on MRF assets, (2) monthly contributions from the Military Services, and (3) an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is paid into the MRF at the beginning of each fiscal year and represents the amortizations of (1) the unfunded liability for service performed before October 1, 1984, and (2) subsequent actuarial gains and losses. Starting October 1, 2004, Public Law 108-136 requires a Treasury contribution for the normal cost amount of the concurrent receipt provisions under Sections 1413a and 1414 in addition to the unfunded liability amortization payment. The DoD Board of Actuaries (the Board) approves methods and assumptions used to determine the amounts for contributions by the U.S. Treasury and the Military Services, and the Secretary of Defense directs the Secretary of Treasury to make the required payment.

See Note 5, *Investments and Related Interest* and Note 21, *Disclosures Related to the Statement of Budgetary Resources*, for additional information related to MRF's investments and received contributions.

Military Retirement Health Benefits (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. OACT calculates actuarial liabilities annually using assumptions and actual experience.

Assumptions listed in Table 13D were used to calculate the FY 2022 actuarial liability. In general, the rates reflected below are higher than recent previous years because retirees and their dependents are utilizing medical services previously delayed due to COVID-19. Beneficiaries are shifting their prescription services from direct care to retail pharmacy (purchased care), resulting in a negative trend rate for Non-Medicare Prescriptions (Direct Care) shown below.

Table 13D. Actuarial Assumptions for MRHB Liability

MRHB Medical Trend	FY 2021 - FY 2022	Ultimate Rate FY 2046
Non-Medicare Inpatient (Direct Care)	7.63%	4.30%
Non-Medicare Outpatient (Direct Care)	4.00%	4.30%
Non-Medicare Prescriptions (Direct Care)	0.71%	4.30%
Non-Medicare Inpatient (Purchased Care)	11.28%	4.30%
Non-Medicare Outpatient (Purchased Care)	3.27%	4.30%
Non-Medicare Prescriptions (Purchased Care)	7.25%	4.30%
U.S. Family Health Plan (USFHP) (Purchased Care)	5.35%	4.30%
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method Assumed Interest Rate: 2.9%		

For the FY 2022 financial statement valuation, a single equivalent medical cost trend rate of 4.6% was used to calculate the total retiree health benefits liability which includes MRHB and Medicare-Eligible Retiree Health Care Fund liabilities.

Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

In accordance with *NDAA for FY 2001*, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Medicare-Eligible Retiree Health Care Board of Actuaries approves assumptions and methods used in actuarial valuations of the MERHCF to calculate normal cost contributions. OACT calculates the actuarial liabilities annually using assumptions and actual experience per SFFAS 33 guidance.

Assumptions listed in Table 13E were used to calculate the FY 2022 actuarial liability. In general, the rates reflected below are higher than recent previous years because retirees and their dependents are utilizing medical services previously delayed due to COVID-19.

Table 13E. Actuarial Assumptions for MRHB Liability

MERHCF Benefits Medical Trend	FY 2021 - FY 2022	Ultimate Rate FY 2046
Medicare Inpatient (Direct Care)	9.18%	4.30%
Medicare Outpatient (Direct Care)	4.00%	4.30%
Medicare Prescriptions (Direct Care)	0.68%	4.30%
Medicare Inpatient (Purchased Care)	12.88%	4.30%
Medicare Outpatient (Purchased Care)	8.26%	4.30%
Medicare Prescriptions (Purchased Care)	7.27%	4.30%
Medicare USFHP (Purchased Care)	9.78%	4.30%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $317.6 billion
Assumed Interest Rate: 2.9%

The FY 2022 MERHCF liability includes Medicare liabilities for all Uniformed Services. The $747.1 billion liability includes $728.8 billion for the Department, $16.3 billion for the Coast Guard, $1.9 billion for the Public Health Service, and $0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2021 $609.4 billion liability included $594.6 billion for the Department, $13.2 billion for the Coast Guard, $1.5 billion for the Public Health Service, and $0.1 billion for NOAA.

The FY 2022 normal cost contributions from each of the Uniformed Services were $9.3 billion from the Department, $238.3 million from the Coast Guard, $33.0 million from the Public Health Service, and $1.9 million from NOAA. The FY 2021 contributions from each of the Uniformed Services were $8.3 billion from the Department, $214.9 million from the Coast Guard, $29.9 million from the Public Health Service, and $1.6 million from NOAA.

For the FY 2022 financial statement valuation, a single equivalent medical cost trend rate of 4.6% was used to calculate the total retiree health benefits liability which includes MRHB and MERHCF liabilities.

Other Benefits

Federal Employees' Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual payments have been discounted to present value that is based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues (*TNC Yield Curve*) which reflects the average duration of income payments and medical payments. An interest rate for wage benefits of 2.119% was assumed for year one and years thereafter. An interest rate for medical benefits of 1.973% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (COLA) and medical inflation factors (consumer price index medical [CPIM]). The actual rates for these factors were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years are provided in Table 13F.

Table 13F. Actuarial Assumptions for FECA Liability

CBY	COLA	CPIM
2023	3.37%	3.13%
2024	3.97%	3.62%
2025	4.10%	3.55%
2026	4.16%	3.84%
2027	3.91%	4.20%

Voluntary Separation Incentive (VSI) Program

The VSI Program was established by NDAA for FYs 1992 and 1993 to reduce the size of the armed forces while avoiding serious skill and grade imbalances, which would degrade the readiness of future forces. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 1.5% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest costs.

The market value of investments in non-marketable, market-based securities is $52.1 million for FY 2022 and $67.8 million for FY 2021.

DoD Education Benefits Fund (EBF)

The EBF was established by NDAA for FY 1985 to recruit and retain military members and aid in the readjustment of military members to civilian life. The DoD OACT calculates the actuarial liability annually based on the assumed interest rate of 2.5% as approved by the DoD Board of Actuaries.

The market value of investments in non-marketable, market-based securities for FY 2022 is $917.8 million and $1.1 billion for FY 2021.

Other Federal Employment Benefits

Other Federal Employment Benefits primarily consists of unfunded annual leave of $13.4 billion and health insurance claims on behalf of military employees and veterans, including costs incurred but not yet recorded, of $2.6 billion in FY 2022. In FY 2021, Other Federal Employment Benefits primarily consists of unfunded annual leave of $13.8 billion and $5.2 billion related to pension benefits due and payable to beneficiaries paid on October 1, 2021. At the end of FY 2022, the pay date for the pension benefits was September 30, 2022 since October 1st fell on a Saturday, a non-banking day.

Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet includes liabilities for clearing accounts, amounts that offset undistributed disbursements or deposited collections awaiting disposition or reclassification. It also includes Employer Contributions and Payroll Taxes Payable, which represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments. Unfunded FECA Liability and Unfunded Unemployment Insurance Liability, which the DOL bills to the DoD for payments made on the DoD's behalf, is also included. This liability will be funded by future years' budgetary resources.

Life Insurance Liabilities and Other Civilian Insurance Programs

The Department's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (*OPM*). The Department does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

Other Military Insurance Programs

The Defense Health Program (DHP) within the Department provides healthcare for military members through the Military Health System (MHS). The DHP is the nomenclature used to describe a congressionally-mandated uniform program of medical and dental care for members and certain former members of the uniformed services and for their dependents. The term "uniformed services" means the armed forces and the Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA) and of the Public Health Service.

MHS is a complex system, globally integrating healthcare delivery, public health and medical education, and cutting-edge medical research and development. More information, including its most recently published Agency Financial Report, may be found at *Office of the Assistant Secretary of Defense for Health Affairs*.

Covered individuals of the Department include active duty personnel, military retirees, certain members of the Reserve Component, family members, survivors, ex-spouses, and other eligible members. These MHS beneficiaries receive direct care through Military Medical Treatment Facilities (MTFs), private sector care through TRICARE's civilian provider networks and other authorized TRICARE providers, and prescription and mail order coverage through the TRICARE Pharmacy Program.

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty family members, retirees, and Reserve members. The TRICARE Insurance Portfolio includes TRICARE Prime, TRICARE Select, TRICARE Continued Health Care Benefits Program (CHCBP), TRICARE Young Adult Program (TYA), TRICARE Reserve Select (TRS), and TRICARE Retired Reserve (TRR). The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected, due to the relative stability in the number of enrollees. Premium rate calculations are based on the benefit cost from prior calendar years. This eliminates any inherent risk to third parties, including the beneficiary and the Manage Care Support Contractors, who provide healthcare claims processing and the initial collections on behalf of DHP.

The total amount of Insurance Premium collections was $912.1 million in FY 2022 and $864.9 million for FY 2021. The benefit cost for FY 2022 and FY 2021 correlate to the premium collections reported.

For Calendar Year 2022 Monthly Premium Rates are established on an annual basis in accordance with *Title 10, U.S.C. Sections 1076d*, *1076e*, *1078a*, and *1110b* along with *Title 32, Code of Federal Regulations, part 199.20*, *24*, *25* and *26*, as enacted by *FY 2017 Section 701 of NDAA; Public Law 114 328*. The enrollment fee and or premium collections are credited to the DHP appropriation available under Treasury Account Symbol 0130 for the fiscal year collected. Renewal in a specific plan is generally automatic unless declined; however, upper age limitations do exist for certain plans. More detailed information is found in the DHP's Agency Financial Report at the link previously noted.

Unfunded actuarial liabilities ($295.1 billion and $256.8 billion for FY 2022 and FY 2021, respectively) related to MHS are reported in Table 13A where it is referred to as Military Pre Medicare-Eligible Retiree Health Benefits. The estimated MHS liability for incurred-but-not-reported (IBNR) medical claims ($2.1 billion and $1.8 billion in FY 2022 and FY 2021, respectively) is included on Table 13A, Other Benefits, Other.

Liability for Unpaid Insurance Claims

Beneficiary claims for Premium health care services are processed through the TRICARE Encounter Data Set. The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost is accounted for under the IBNR calculation. The IBNR change is a net result of several factors that increase or decrease the reserve, including change in claims cost and volume per member, change in administration cost estimates and required margin, change in population size, and movement of health care delivery to alternative types of service.

The table below presents the changes in the liability balance for unpaid insurance claims, including IBNR.

Table 13G. Liability for Unpaid Insurance Claims

As of September 30 *(dollar in millions)*	**2022**	**2021**
Beginning Balance	$ 2,084.7	$ 1,966.0
Claims Expense	16,589.7	15,074.5
Claims Adjustment Expense	(28.8)	(22.2)
Payments to Settle Claims	(16,214.0)	(14,918.9)
Recoveries and Other Adjustments	5.3	(14.7)
Ending Balance	$ 2,436.9	$ 2,084.7

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Table 14. Environmental and Disposal Liabilities

As of September 30 *(dollar in millions)*	2022	2021
Environmental Liabilities - Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 15,171.5	$ 13,952.6
Active Installations - Military Munitions Response Program (MMRP)	3,994.4	3,644.6
Formerly Used Defense Sites - IRP and BD/DR	3,559.5	3,243.7
Formerly Used Defense Sites - MMRP	9,875.9	8,657.2
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	5,251.9	1,715.4
Environmental Closure Requirements	10,038.0	8,142.5
Asbestos	10,197.1	9,810.0
Non-Military Equipment	1.0	8.1
Other	2,657.6	2,452.5
Base Realignment and Closure Installations		
IRP	5,572.5	5,441.9
MMRP	978.3	1,109.8
Environmental Corrective Action/Closure Requirements	393.6	405.7
Asbestos	10.3	9.4
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	17,367.8	16,994.2
Non-Nuclear Powered Military Equipment	642.8	634.2
Other Weapon Systems	371.9	361.6
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency (CMA)	1,947.2	2,130.8
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	2,529.8	3,249.2
Total Environmental and Disposal Liabilities	$ 90,561.1	$ 81,963.4

The Department has cleanup requirements and conducts the cleanup under the Defense Environmental Restoration Program (DERP) at active installations, Base Realignment Closure (BRAC), and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not driven by DERP, weapon systems programs, and chemical weapons destruction programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.
Other Accrued Environmental Liabilities - Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program (FUSRAP) which the U.S. Army Corps of Engineers is responsible for cleaning up sites with contamination resulting from the nation's early atomic energy program.

Environmental and Disposal Liabilities Involving Multiple Component Entities

There are instances when a component reporting entity recognizes General PP&E during the assets useful life differs from the reporting entity that will eventually be responsible for the future outflow of resources required for cleanup when the asset is removed from service. *FASAB Interpretation 9*, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities*: An Interpretation of SFFAS 5 and SFFAS 6, clarifies during the asset's useful life the reporting entity owning the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for General PP&E on its Balance Sheet. When the asset is transferred to the designated entity responsible by law, statute, or policy for cleanup, the General PP&E and the associated liability must be de-recognized by the component reporting entity that recognized them during the General PP&E's useful life. The asset then must be recognized by the reporting entity responsible for clean-up and liquidating the liability. De-recognition and recognition of the General PP&E and liability must be performed in accordance with existing accounting standards. The reporting entity recording the environmental liability must have sufficient supporting documentation to establish its responsibility for the liability.

Sources for Cleanup Requirements

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Tracking and reporting all environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapons systems, and environmental costs related to BRAC action are required by the Department.

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), Superfund Amendments and Reauthorization Act of 1986 (SARA), Resource Conservation and Recovery Act of 1976 (RCRA) or other applicable federal or state laws to clean up contamination. The CERCLA, SARA, and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.
Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The *Atomic Energy Act of 1954*, as amended, set forth the development, use, and control of atomic energy so as to promote world peace, improve general welfare, increase standard of living, and strengthen free competition in private enterprise. The *Nuclear Waste Policy Act of 1982*, as amended, supports the use of deep geologic repositories for the safe storage and disposal of radioactive waste. The *Low Level Radioactive Waste Policy Amendments Act of 1985*, as amended, authorizes and encourages states to enter into compacts for safe and efficient management of low-level radioactive wastes.

The Chemical Weapons Program is based on the *NDAA for FY 1986*, directing the Department to carry out the destruction of chemical agents and munition stockpile in accordance with the Chemical Weapons Convention.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department utilizes an estimating methodology model which includes the use of mathematical equations to covert resources data into cost data to project environmental cleanup cost. Remedial Action Cost Engineering Requirements (RACER) is an example of cost estimation software. The Department validates the models in accordance with *DoD Instruction 5000.61* and estimates liabilities based on data received during preliminary assessment and site investigation.

Once the environmental cleanup cost estimates are complete, the Department complies with accounting standards to record costs to current and future operating periods, when applicable. The Department expensed cleanup costs for General PP&E placed into service before October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, the Department expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses associated Environmental cleanup costs using two methods – (1) physical capacity usage of the assets or (2) systematically recognized over the use life.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General PP&E was $3.9 billion as of September 30, 2022, and $4.9 billion as of September 30, 2021.

Nature and Possible Changes in Estimated Cleanup Costs

Environmental liabilities change over time because of laws and regulation updates, technology advances, inflation or deflation factors and disposal plan revisions. The Department is unaware of pending changes affecting its estimated cleanup costs.

The Department revises estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

Uncertainty Regarding Accounting Estimates

The accounting estimates used to calculate the reported environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

Emerging Contaminants

Per and Polyfluoroalkyl Substances (PFAS) are classified as emerging contaminants because they do not have established federal regulatory standards, but evolving science has identified potential risks to humans and regulatory standards are under consideration. PFAS are a large class of chemicals found in many consumer products, as well as in a certain firefighting foam called aqueous film forming foam (AFFF). While the Department is only one of the many users of AFFF, there is significant attention on the Department's use and the subsequent potential impact to human health and the environment. The Department follows the existing federal cleanup law CERCLA and long-standing Environmental Protection Agency regulations for all chemicals in its cleanup program, including PFAS. As the Department continues PFAS site investigations and additional regulatory standards are developed and put in place, the PFAS related environmental liability amounts are likely to increase over time.

As of FY 2022, the Department reported PFAS related environmental liability amounts through the Remedial Investigation/ Feasibility Study (RI/FS) phase for most PFAS sites. The Department concluded that costs after the RI/FS phase are not yet reasonably estimable because the extent of the PFAS release has not been determined.

Red Hill Bulk Fuel Storage Facility

The Red Hill Fuel Storage Facility (Red Hill) is located on the Island of Oahu, Hawaii, and consists of twenty underground steel-lined tanks encased in concrete and built into cavities. In May 2021, approximately 21,000 gallons of fuel was released during a fuel transfer when two piping joints ruptured. Most of the fuel was collected into an empty retention line. An environmental liability was not estimated during FY 2021 since the fuel release was unknown.

In November 2021, the retention line was struck by a vehicle operating in the facility causing the fuel to release outside of Red Hill. The fuel migrated into the drinking water supply to Joint Base Pearl Harbor Hickham.

In May 2022, the Hawaii Department of Health issued an Emergency Order for the twenty underground storage tanks (UST) to close in accordance with Hawaii environmental regulations.

The Department issued "Department of Defense Report on Red Hill Response Cost Projections" dated August 31, 2022 (Cost Projection Report) to inform Congress of the Department's projected costs to defuel and permanently close the Red Hill Bulk Fuel Storage Facility to comply with the Hawaii State Department of Health order. In the report, the Department estimated projected costs total $2.0 billion through FY 2027. The Cost Projection Report was developed in a short time frame for budgetary purposes. Therefore, most of the projected costs were not estimated based on specific site information that will be gained from the fuel investigation and response, and do not meet federal accounting standards for estimates. As such, not all costs are reasonably estimable. The Department reports $155.5 million as an Other Accrued Environmental Liabilities – Non BRAC – Environmental Closure Requirement. The liability amount is projected based on the historic fuel tank closures and associated costs utilizing a parametric engineering estimation approach.

The Department of Navy will submit a separate tank closure plan that will include site assessment requirements related to past fuel releases. The tank closure plan will provide a baseline to establish an estimate for future financial impact. Upon implementation of the site assessment and release investigation outlined in the tank closure plan, the current environmental liability may change to align with this information. Until defueling is complete in 2024, some UST closure requirements and parameters for Red Hill may remain un-known. Therefore, not all Red Hill related estimated costs are reasonably estimable.

Asbestos-Related Cleanup Costs

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. Both CERCLA and RCRA address asbestos cleanup, but there is no legal requirement to test for asbestos or to remove and remediate non-friable asbestos before renovation or disposal. In accordance with *FASAB Technical Bulletin 2006-1*, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, the Department environmental and disposal liabilities include estimated cleanup costs related to friable and non-friable asbestos. The Department components estimate asbestos cleanup costs based on historic cost factors applied to facility square footage in the real property inventory. Based on the inherent uncertainties associated with asbestos environmental cleanup, the estimated cost will be updated as more relevant data becomes available. The Department does not have either an unrecognized portion of the estimated total asbestos-related cleanup costs nor asbestos-related cleanup costs that are deemed to be probable but not estimable for FY2022.

Environmental Liabilities Increases

Other Accrued Environmental Liabilities - Non Base Realignment and Closure (BRAC) Environmental Corrective Action increased $3.5 billion primarily due to the additional Chemical Warfare Material (CWM) cleanup requirements at Redstone Arsenal. Accrued Environmental Restoration Liabilities Formerly Used Defense Sites – Military Munitions Response Program (FUDS MMRP) increased $1.2 billion due to FUDS re-estimated costs to complete. The re-estimation of costs to complete is driven by changes in project scope for MMRP stemming from additional investigations and implementation of increased quality assurance and quality control requirements for munitions removal process and new technology to address ground water plumes.

See Note 17, *Commitments and Contingencies* for additional information.

NOTE 15. OTHER LIABILITIES

Table 15A. Other Liabilities

As of September 30 *(dollar in millions)*	2022 Current Liability		2022 Non-Current Liability		2022 Total	
Intragovernmental						
Disbursing Officer Cash	$	984.3	$	-	$	984.3
Liabilities for Non-entity Assets		317.2		1,951.7		2,268.9
Other Liabilities		1,229.3		-		1,229.3
Subtotal		2,530.8		1,951.7		4,482.5
Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*		1,299.2		501.3		1,800.5
Total Intragovernmental		3,830.0		2,453.0		6,283.0
Other than Intragovernmental						
Accrued Funded Payroll and Leave		7,809.8		-		7,809.8
Withholdings Payable		658.8		-		658.8
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections		3,161.4		-		3,161.4
Liability for Clearing Accounts		(0.3)		-		(0.3)
Contract Holdbacks		449.8		1,233.0		1,682.8
Contingent Liabilities		307.4		776.2		1,083.6
Benefits Due and Payable		1.8		-		1.8
Other Liabilities without Related Budgetary Obligations		439.9		2,244.3		2,684.2
Other Liabilities with Related Budgetary Obligations		3,166.2		-		3,166.2
Total Other than Intragovenmental		15,994.8		4,253.5		20,248.3
Total Other Liabilities	$	19,824.8	$	6,706.5	$	26,531.3

As of September 30 *(dollar in millions)*	2021 Current Liability	2021 Non-Current Liability	2021 Total
Intragovernmental			
Disbursing Officer Cash	$ 938.7	$ -	$ 938.7
Liabilities for Non-entity Assets	254.8	1,946.2	2,201.0
Other Liabilities	1,173.8		1,173.8
Subtotal	2,367.3	1,946.2	4,313.5
Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	1,681.2	493.2	2,174.4
Total Intragovernmental	4,048.5	2,439.4	6,487.9
Other than Intragovernmental			
Accrued Funded Payroll and Leave	12,633.4	-	12,633.4
Withholdings Payable	671.3	-	671.3
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	3,386.8	-	3,386.8
Liability for Clearing Accounts	-		-
Contract Holdbacks	480.4	1,218.2	1,698.6
Contingent Liabilities	231.2	532.4	763.6
Benefits Due and Payable	2.2	-	2.2
Other Liabilities without Related Budgetary Obligations	358.0	2,286.5	2,644.5
Other Liabilities with Related Budgetary Obligations	989.0	-	989.0
Total Other than Intragovenmental	18,752.3	4,037.1	22,789.4
Total Other Liabilities	$ 22,800.8	$ 6,476.5	$ 29,277.3

Intragovernmental Other Liabilities

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

Liabilities for Non-entity Assets represent offsetting liabilities for non-entity assets primarily non-entity receivables that, upon collection, will be remitted to Treasury.

Other Liabilities primarily consists of Judgement Fund liabilities under the Contract Disputes Act of 1978, for which there is not a related budgetary obligation. The Judgment Fund pays court judgments and compromise settlements of lawsuits against the government. Losses in litigation proceedings may be paid from the Treasury Judgement Fund.

“Intragovernmental Other Liabilities” on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined balance sheet format (see additional information in Note 1.AD *Significant Accounting Policies*). Certain USSGLs on the Balance Sheet line “Intragovernmental Other Liabilities” are required to be reported on Note 13, *Federal Employee and Veteran Benefits Payable*, while others are reported on this Note 15. The amounts from the Balance Sheet “Intragovernmental Other Liabilities” reported on Note 13 are aggregated and also included above as Other Liabilities Reported on Note 13. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Other Than Intragovernmental Other Liabilities

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

Liability for clearing accounts represent liabilities that offset receipts held in suspense temporarily for distribution to another fund or entity or for reclassification. The net amount may present as an overall position or negative balance.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For both FY 2022 and FY 2021 contract holdbacks include $1.4 billion for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (FAR).

Contingent Liabilities for FY 2022 and 2021 include legal contingent liabilities. See Note 17, *Commitments and Contingencies*.

Other Liabilities without Related Budgetary Obligations consist primarily of accrued liabilities for conventional munitions noncurrent liability, non-environmental disposal liabilities and other future funded expense, liabilities for Reserve Officer Training Corps contracts, and estimated costs for services provided.

Other Liabilities with Related Budgetary Obligations consist primarily of estimated costs for goods and services provided; accrued liabilities for inventory owned and managed on behalf of foreign governments; and undistributed international tariff receipts.

Table 15B. Other Liabilities

As of September 30 *(dollar in millions)*		**2022**		**2021**
Intragovernmental	$	3,859.4	$	3,825.2
Other than Intragovernmental	$	6,194.3	$	5,699.7

Intragovernmental

Advances from Others and Deferred Revenue represents liabilities for collections received to cover future expenses or acquisition of assets the Department incurs or acquires on behalf of another organization. Advances from Others and Deferred Revenue for FY 2022 and FY 2021 includes $1.1 billion and $552.2 million, respectively for cash advances from Department of Health and Human Services to deliver medical supplies in support of COVID-19 efforts.

Other Than Intragovernmental

Advances from Others and Deferred Revenue represents amounts received for goods and services to be delivered or performed in the future and reflect amounts that have yet to be earned.

NOTE 16. LEASES

Entity as Lessee

Capital Leases:
The Department is reporting Non-Federal capital lease equipment and amortization related to Indefeasible Right of Use agreements, allowing the Department access to portions of undersea fiber optic cables. The Department has other leased assets recorded as equipment for which no future lease payments are due.

Table 16A. Entity as Lessee - Assets Under Capital Lease

As of September 30 *(dollar in millions)*	2022	2021
Equipment	$ 320.2	$ 367.1
Accumulated Amortization	(264.8)	(303.5)
Total Assets Under Capital Leases	$ 55.4	$ 63.6

Description of Lease Arrangements:

Lease arrangements describe the nature of the leases (such as major asset categories, the number of locations where building space is leased, the range of dates when lease terms expire, and, if applicable, the accounting treatment of rent holidays and leasehold improvements).

Future Payments Due for Federal and Non-Federal Capital Leases:

Table 16B. Entity as Lessee - Future Payments Due for Federal Capital Leases

Currently, the Department has no significant future capital lease payments with terms longer than one year.

Table 16C. Entity as Lessee - Future Payments Due for Non-Federal Capital Leases

Currently, the Department has no significant future non-federal capital lease payments with terms longer than one year.

Operating Leases:

Description of Lease Arrangements:

The future lease payments due presented in the table below are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risk of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index (CPI).

Federal

Office space is the largest component of Land and Building leases. Other leases primarily consist of General Services Administration motor vehicle leases.

Non-Federal

Office space and buildings are the largest component of Land and Building leases. Other leases primarily consist of commercial vehicle leases, and communication and broadcast towers leases.

Table 16D. Entity as Lessee - Future Payments Due for Non-Cancelable Operating Leases

As of September 30 *(dollar in millions)*	2022 Asset Category			
	Land and Buildings	Equipment	Other	Total
Federal				
Fiscal Year				
2023	$ 698.4	$ 6.5	$ 100.0	$ 804.9
2024	496.0	4.3	96.9	597.2
2025	515.2	4.2	96.9	616.3
2026	536.2	4.1	97.9	638.2
2027	549.3	3.8	99.1	652.2
After 5 Years	1,624.5	3.8	82.8	1,711.1
Total Federal Future Lease Payments	4,419.6	26.7	573.6	5,019.9
Non-Federal				
Fiscal Year				
2023	291.4	0.6	31.0	323.0
2024	242.7	0.5	30.4	273.6
2025	195.0	0.5	30.7	226.2
2026	116.7	0.5	30.9	148.1
2027	80.1	0.1	31.5	111.7
After 5 Years	113.9	-	32.1	146.0
Total Non-Federal Future Lease Payment	1,039.8	2.2	186.6	1,228.6
Total Future Lease Payments	$ 5,459.4	$ 28.9	$ 760.2	$ 6,248.5

Entity as Lessor

Capital Leases:

Description of Lease Arrangements:
The Department is currently unaware of any non-cancelable capital leases where it is the lessor.

Table 16E. Entity as Lessor - Future Projected Receipts for Capital Leases

Currently, the Department is unaware of any non-cancelable capital leases where it is the lessor.

Operating Leases:

Description of Lease Arrangements:
The future lease payments due presented in the table below, are for non-cancelable operating leases in which the Department is the lessor.

The United States Army Corps of Engineers (USACE) permits a small number of Federal entities, such as Government Accountability Office, to use its office spaces on a break-even basis.

USACE and the Department of the Army have a small volume of operating leases as the lessor for easements with Non-Federal entities. Private companies' and individuals' lease easements are managed by USACE to operate marinas, restaurants, cell towers, and other businesses on USACE lands and Army installations. Only USACE and the Department of the Army are reporting Non-Cancelable Operating Leases as the lessor.

Table 16F. Entity as Lessor - Future Projected Receipts for Non-Cancelable Operating Leases

As of September 30 *(dollar in millions)*	2022 Land and Buildings
Federal	
Fiscal Year	
2023	$ 0.1
2024	0.1
2025	0.1
2026	-
2027	-
After 5 Years	-
Total Federal Future Projected Receipts	0.3
Non-Federal	
Fiscal Year	
2023	24.2
2024	20.0
2025	17.5
2026	14.0
2027	11.2
After 5 Years	49.9
Total Non-Federal Future Projected Receipts	136.8
Total Future Lease Payments for Operating Leases	$ 137.1

NOTE 17. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the Treasury Judgment Fund. In most cases, the Department does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the Contracts Disputes Act or the No FEAR Act.

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The below amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

Table 17. Summary of Legal Contingent Liabilities

As of September 30 *(dollar in millions)*	2022 Accrued Liabilities	2022 Estimated Range of Loss: Lower End	2022 Estimated Range of Loss: Upper End
Legal Contingent Liabilities			
Probable	$ 944.7	$ 508.5	$ 1,436.1
Reasonably Possible	$ -	$ 1,657.2	$ 40,212.7

As of September 30 *(dollar in millions)*	2021 Accrued Liabilities	2021 Estimated Range of Loss: Lower End	2021 Estimated Range of Loss: Upper End
Legal Contingent Liabilities			
Probable	$ 632.8	$ 508.0	$ 1,494.3
Reasonably Possible	$ -	$ 1,620.2	$ 15,779.8

As of September 30, 2022, legal claims exist for which the amount claimed, and the potential range of loss cannot be reasonably determined. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the resolution of the proceeding, actions, and claims will materially affect the Department's financial position or results of operation.

Environmental Contingencies

The Department continues to review possible environmental contingent liabilities to include friable and non-friable asbestos cleanup costs. See Note 14, *Environmental and Disposal Liabilities*, for additional information.

Other Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of budgetary resources. Contingencies considered both measurable and probable in the amount of $139.0 million and $130.9 million have been accrued for FY 2022 and FY 2021, respectively. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the Department's financial statements pursuant to legal authority and appropriated funds none are contingent. All legally binding agreements to which the Department enters, must first be approved by the Department of State, pursuant to *Circular 175*, prior to negotiation and prior to conclusion.

Commitments

The Department has the following obligations as of FY 2022 and FY 2021

- Cancelled appropriations for which it has a contractual commitment for payment ($3.7 billion and $3.2 billion, respectively)
- Contractual arrangements related to loan guarantees ($847.5 million and $887.2 million, respectively)
- Non-cancelable operating leases which may require future financial obligations ($6.2 billion and $5.5 billion, respectively)
- See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for the face value of outstanding principal of guaranteed loans net of the liability recognized at Net Present Value and Note 16, *Leases*, for additional information.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

Table 18A. Combined Balance Sheet – Funds from Dedicated Collections

See Note 1.U. Summary of Significant Accounting Policies, Revenues and Other Financing Sources for information related to the Department's Funds from Dedicated Collections.

As of September 30 *(dollar in millions)*	2022						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental Assets							
Fund Balance with Treasury	$ 175.5	$ 2,447.6	$ 1,911.3	$ 1,040.9	$ 5,575.3	$ -	$ 5,575.3
Investments, Net	9,516.3	-	1,630.8	16.2	11,163.3	-	11,163.3
Accounts Receivable, Net	1,650.4	-	-	3.0	1,653.4	(1,061.1)	592.3
Total Intragovernmental Assets	11,342.2	2,447.6	3,542.1	1,060.1	18,392.0	(1,061.1)	17,330.9
Other than Intragovernmental Assets							
Cash and Other Monetary Assets	-	-	-	2.6	2.6	-	2.6
Accounts Receivable, Net	-	61.5	-	11.7	73.2	-	73.2
General Property, Plant and Equipment, Net	123.4	218.2	-	168.1	509.7	-	509.7
Advances and Prepayments	-	-	-	0.2	0.2	-	0.2
Total Other than Intragovernmental Assets	123.4	279.7	-	182.6	585.7	-	585.7
Total Assets	11,465.6	2,727.3	3,542.1	1,242.7	18,977.7	(1,061.1)	17,916.6
Intragovernmental Liabilities							
Accounts Payable	2,122.7	0.1	6.3	4.5	2,133.6	(1,061.1)	1,072.5
Other Liabilities	6.0	12.9	-	2.3	21.2	-	21.2
Total Intragovernmental Liabilities	2,128.7	13.0	6.3	6.8	2,154.8	(1,061.1)	1,093.7
Other than Intragovernmental Liabilities							
Accounts Payable	0.2	41.4	-	39.2	80.8	-	80.8
Environmental & Disposal Liabilities	-	-	-	-	-	-	-
Other Liabilities:							
Advances from Others and Deferred Revenue	-	2,418.5	-	-	2,418.5	-	2,418.5
Other	-	9.2	-	-	9.2	-	9.2
Total Other Liabilities	-	2,427.7	-	-	2,427.7	-	2,427.7
Total Other than Intragovernmental Liabilities	0.2	2,469.1	-	39.2	2,508.5	-	2,508.5
Total Liabilities	2,128.9	2,482.1	6.3	46.0	4,663.3	(1,061.1)	3,602.2
Cumulative Results of Operations	9,336.7	245.2	3,535.8	1,196.7	14,314.4	-	14,314.4
Total Liabilities and Net Position	$ 11,465.6	$ 2,727.3	$ 3,542.1	$ 1,242.7	$ 18,977.7	$ (1,061.1)	$ 17,916.6

As of September 30 *(dollar in millions)*	2021						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental Assets							
Fund Balance with Treasury	$ 146.3	$ 2,184.5	$ 1,779.0	$ 1,011.9	$ 5,121.7	$ -	$ 5,121.7
Investments, Net	9,376.8	-	1,831.4	15.6	11,223.8	-	11,223.8
Accounts Receivable, Net	568.2	-	-	1.3	569.5	-	569.5
Total Intragovernmental Assets	10,091.3	2,184.5	3,610.4	1,028.8	16,915.0	-	16,915.0
Other than Intragovernmental Assets							
Cash and Other Monetary Assets	-	-	-	2.3	2.3	-	2.3
Accounts Receivable, Net	-	61.8	-	4.6	66.4	-	66.4
General Property, Plant and Equipment, Net	125.3	252.5	-	127.8	505.6	-	505.6
Advances and Prepayments	-	-	-	0.2	0.2	-	0.2
Total Other than Intragovernmental Assets	125.3	314.3	-	134.9	574.5	-	574.5
Total Assets	10,216.6	2,498.8	3,610.4	1,163.7	17,489.5	-	17,489.5
Intragovernmental Liabilities							
Accounts Payable	-	0.1	8.1	9.9	18.1	-	18.1
Other Liabilities	6.0	12.9	-	2.3	21.2	-	21.2
Total Intragovernmental Liabilities	6.0	13.0	8.1	12.2	39.3	-	39.3
Other than Intragovernmental Liabilities							
Accounts Payable	0.1	42.8	-	44.9	87.8	-	87.8
Environmental & Disposal Liabilities	-	-	-	31.1	31.1	-	31.1
Other Liabilities:							
Advances from Others and Deferred Revenue	-	2,154.7	-	-	2,154.7	-	2,154.7
Other	-	11.3	-	-	11.3	-	11.3
Total Other Liabilities	-	2,166.0	-	-	2,166.0	-	2,166.0
Total Other than Intragovernmental Liabilities	0.1	2,208.8	-	76.0	2,284.9	-	2,284.9
Total Liabilities	6.1	2,221.8	8.1	88.2	2,324.2	-	2,324.2
Cumulative Results of Operations	10,210.5	277.0	3,602.3	1,075.5	15,165.3	-	15,165.3
Total Liabilities and Net Position	$ 10,216.6	$ 2,498.8	$ 3,610.4	$ 1,163.7	$ 17,489.5	$ -	$ 17,489.5

Table 18B. Combined Statement of Net Cost – Funds from Dedicated Collections

For the period ended September 30, 2022 *(dollar in millions)*	2022						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Gross Program Costs	$ 62.3	$ 353.3	$ 1,364.3	$ 296.7	$ 2,076.6	$ -	$ 2,076.6
Less: Earned Revenues	-	(472.0)	(1,133.5)	(260.3)	(1,865.8)	-	(1,865.8)
Net Program Costs	62.3	(118.7)	230.8	36.4	210.8	-	210.8
Net Cost of Operations	$ 62.3	$ (118.7)	$ 230.8	$ 36.4	$ 210.8	$ -	$ 210.8

For the period ended September 30, 2021 *(dollar in millions)*	2021						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Gross Program Costs	$ 67.4	$ 324.4	$ 1,692.2	$ 367.8	$ 2,451.8	$ -	$ 2,451.8
Less: Earned Revenues	-	(519.9)	(1,768.3)	(230.9)	(2,519.1)	-	(2,519.1)
Net Program Costs	67.4	(195.5)	(76.1)	136.9	(67.3)	-	(67.3)
Net Cost of Operations	$ 67.4	$ (195.5)	$ (76.1)	$ 136.9	$ (67.3)	$ -	$ (67.3)

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Table 18C. Combined Statement of Changes in Net Position – Funds from Dedicated Collections

For the period ended September 30, 2022 *(dollar in millions)*	2022						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations							
Beginning Balance	$ 10,210.5	$ 277.0	$ 3,602.4	$ 1,076.5	$ 15,166.4	$ -	$ 15,166.4
Prior Period Adjustments:							
Changes in accounting principles (+/-)	-	-	-	-	-	-	-
Changes in errors (+/-)	-	-	-	-	-	-	-
Beginning Balance, as adjusted	10,210.5	277.0	3,602.4	1,076.5	15,166.4	-	15,166.4
Other than Intragovernmental Nonexchange revenue							
Miscellaneous taxes and receipts	-	-	164.2	12.1	176.3	-	176.3
Total Other than Intragovernmental Nonexchange revenue	-	-	164.2	12.1	176.3	-	176.3
Intragovernmental Nonexchange revenue	2,093.5	-	-	13.7	2,107.2	-	2,107.2
Donations and forfeitures of cash and cash equivalents	-	-		107.9	107.9	-	107.9
Transfers-in/out without reimbursement (+/-)	(2,905.0)	(152.5)	-	(68.6)	(3,126.1)	-	(3,126.1)
Imputed financing	-	2.0	-	24.8	26.8	-	26.8
Other	-	-	-	66.7	66.7	-	66.7
Less: Net Cost of Operations	62.3	(118.7)	230.8	36.4	210.8	-	210.8
Net Change in Cumulative Results of Operations	(873.8)	(31.8)	(66.6)	120.2	(852.0)	-	(852.0)
Net Position, End of Period	$ 9,336.7	$ 245.2	$ 3,535.8	$ 1,196.7	$ 14,314.4	$ -	$ 14,314.4

For the period ended September 30, 2021 *(dollar in millions)*	2021						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations							
Beginning Balance	$ 10,007.3	$ 245.8	$ 3,526.3	$ 1,046.0	$ 14,825.4	$ -	$ 14,825.4
Prior Period Adjustments:							
Changes in accounting principles (+/-)	-	-	-	-	-	-	-
Changes in errors (+/-)	-	-	-	-	-	-	-
Beginning Balance, as adjusted	10,007.3	245.8	3,526.3	1,046.0	14,825.4	-	14,825.4
Other than Intragovernmental Nonexchange revenue							
Miscellaneous taxes and receipts	-	-	-	17.0	17.0	-	17.0
Total Other than Intragovernmental Nonexchange revenue	-	-	-	17.0	17.0	-	17.0
Intragovernmental Nonexchange revenue	1,725.8	-	-	11.5	1,737.3	-	1,737.3
Donations and forfeitures of cash and cash equivalents	-	-	(0.1)	79.4	79.3	-	79.3
Transfers-in/out without reimbursement (+/-)	(1,455.2)	(171.7)	-	(47.7)	(1,674.6)	-	(1,674.6)
Imputed financing	-	7.4	-	27.5	34.9	-	34.9
Other	-	-	-	78.7	78.7	-	78.7
Less: Net Cost of Operations	67.4	(195.5)	(76.1)	136.9	(67.3)	-	(67.3)
Net Change in Cumulative Results of Operations	203.2	31.2	76.0	29.5	339.9	-	339.9
Net Position, End of Period	$ 10,210.5	$ 277.0	$ 3,602.3	$ 1,075.5	$ 15,165.3	$ -	$ 15,165.3

FY 2022 Change in the presentation of Funds from Dedicated Collections

During FY 2022, the presentation and underlying methodology for the above tables and the Balance Sheet Net Position section was modified to align with FY 2022 OMB Circular A-136 requirements. The Note 18 tables for both years relate solely to funds from dedicated collections, presenting the combined, elimination and consolidated amounts. Eliminations for intra-DoD transactions are needed to arrive at consolidated balances. The eliminations on Note 18 tables include only those between the Department's funds from dedicated collections. In recent previous years, Note 18 did not present the eliminations or consolidated balances.

Due to this change in presentation and related changes in methodology, described further below, a $20.9 million difference for FY 2021 exists between the Cumulative Results of Operations (CRO) on the FY 2021 Table 18A and Cumulative Results of Operations - Funds from Dedicated Collections in the Balance Sheet's net position section. Furthermore, a difference of $1.1 million exists between the CRO Beginning Balance of the FY 2022 Table 18C and the FY 2021 Table 18C Net Position, End of Year of the FY 2021 Table 18C. In addition, the comparative year combined amounts have certain immaterial differences when compared to the FY 2021 Agency Financial Report.

These reported differences related to the comparative year Note 18 tables have several underlying causes rooted in methodology changes needed to comply with FY 2022 OMB Circular A-136, including: 1). application of the dedicated/non-dedicated funds relationship between intra-DoD trading partners to the classification of each elimination transaction (on Note 18, only eliminations between dedicated collections trading partners are included); 2). the reporting of an activity with comingled dedicated collection funds and other funds as either dedicated collections or as non-dedicated collections as permitted by SFFAS 27, as amended; and 3). a prior year trading partner transaction related to mixed use activity. Restatement of a prior year trading partner transaction is generally not permitted due the impact on the other trading partner.

Impact to the Balance Sheet and Statement of Changes in Net Position

The change in presentation and underlying methodology related to dedicated collections and eliminations described above impacted the face of the Balance Sheet and Statement of Changes in Net Position in the following way:

Table 18D. Prior Year Net Position Presentation on the Balance Sheet - Reconciliation of FY 2021 AFR to FY 2022 AFR

As of September 30, 2021 (Comparative Year) *(dollar in millions)*	Balance Sheet per FY 2021 AFR	Net Effect of Restatements (Note 28)	Net Effect of FY 2022 Presentation Change for Dedicated Collections	FY 2021 Balance Sheet per FY 2022 AFR
Net Position				
Unexpended Appropriations - Funds from Dedicated Collections (Note 18)	$ -	$ -	$ -	$ -
Unexpended Appropriations - Funds Other than Dedicated Collections	552,868.5	-	-	552,868.5
Unexpended Appropriations - Eliminations between Dedicated Collections and Other Funds	*	-	-	-
Total Unexpended Appropriations (Consolidated)	552,868.5	-	-	552,868.5
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	34,149.5		(18,963.2)	15,186.3
Cumulative Results of Operations - Funds Other than Dedicated Collections	(337,556.9)	5,604.8	18,963.2	(312,988.9)
Cumulative Results of Operations - Eliminations between Dedicated Collections and Other Funds	**	-	-	-
Total Cumulative Results of Operations - Eliminations between Dedicated Collections and Other Funds (Consolidated)	(303,407.4)	5,604.8	-	(297,802.6)
Total Net Position	$ 249,461.1	$ 5,604.8	$ -	$ 255,065.9

* Balance Sheet Line "Unexpended Appropriations - Eliminations between Dedicated Collections and Other Funds" is a new report line in FY 2022 and did not exist in the prior year. However, DoD did not have any dedicated collection funds receiving unexpended appropriations.
** Balance Sheet Line "Cumulative Results of Operations - Eliminations between Dedicated Collections and Other Funds" is a new report line in FY 2022 and did not exist in the prior year. As explained previously in this Note, eliminations are reported on a different basis beginning in FY 2022, in accordance with OMB Circular A-136. Previously, eliminations were offset against the reported amount, regardless of the trading partner relationship. Beginning in FY 2022, eliminations between a funds from Dedicated Collection entity and an Other Funds entity are reported on this new report line and, as expected, offset to zero.

The Statement of Changes in Net Position is presented on a consolidated basis and, for the FY 2022 Agency Financial Report, will disclose the Net Position from Dedicated Collections (Table 18C) parenthetically.

Table 18E. Prior Year Parenthetical Disclosures on the Statement of Changes in Net Position (SCNP) related to Funds from Dedicated Collections - Reconciliation of FY 2021 AFR to FY 2022 AFR (impacted lines only)

As of September 30, 2021 (Comparative Year) *(dollar in millions)*	SCNP per FY 2021 AFR	Other Adjustments	Net Effect of FY 2022 Presentation Change for Dedicated Collections	FY 2021 SCNP per FY 2022 AFR
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	$ 32,557.9	$ -	$ (17,732.5)	$ 14,825.4
Net Costs of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	$ (315.8)	$ (1.1)	$ 248.5	$ (68.4)
Net Costs in Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	$ 1,591.6	$ 1.1	$ (1,251.7)	$ 341.0
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - See Note 18)	$ 34,149.5	$ 1.1	$ (18,984.2)	$ 15,166.4

Other Adjustment: The other $1.1 million adjustment is related to the reporting in FY 2021 of dedicated collection activity as non-dedicated collection activity which was realigned to dedicated collection reporting on the FY 2022 AFR.

Purpose, Source of Revenue, and Authority for Funds from Dedicated Collections

Harbor Maintenance and Related Funds

Harbor Maintenance Trust Fund (*26 U.S.C. §9505*) – *The Water Resources Development Act of 1986* covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of related administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Collections on behalf of USACE from the Department of Homeland Security, Customs and Border Protection, are made into the Trust Fund from fees assessed on port use associated with imports, imported merchandise admitted into a foreign trade zone, passengers, and movement of cargo between domestic ports. Treasury manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund (*16 U.S.C. §3951-3956*), Coastal Wetlands Planning, Protection, and Restoration Act as part of *Public Law 101-646* – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds among the members of the Louisiana Coastal Wetlands Conservation and Restoration Task Force. Federal contributions of dedicated collections are established at 75 percent of project costs or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund, a trust with collections from excise taxes on fishing equipment, motorboat and small engine fuels, import duties, and interest.

Inland Waterways Trust Fund (*26 U.S.C. §9506*) – Collections from excise taxes on fuel used in commercial transportation on inland waterways are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The collections are required to be transferred to the General Fund for execution. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Rivers and Harbors Contributed and Advance Funds

Rivers and Harbors Contributed and Advance Funds (*33 U.S.C. §701h*, *702f*, and *703*) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, and enlargement of river channels in the course of flood control and river and harbor maintenance.

Burden Sharing and Other Relocation Activities

Burden Sharing (*Public Law 104-106* and *10 U.S.C. § 2350j*) – Burden sharing and other cooperative activities involving allies and NATO for the acceptance of cash contributions from any country or regional organization designated for purposes of 10 U.S.C. § 2350j by the Secretary of Defense, in consultation with the Secretary of State for the following:

- Compensation for local national employees
- Military construction projects
- Supplies and services

Support for Relocation to Activities (*10 U.S.C. § 2350k*) – Includes the realignment of military installations and the relocation of military personnel. This includes military construction, military family housing, unaccompanied housing, general facilities constructions for military forces, and utilities improvements. Contributions accepted from other nations related to the relocation must be used for payments of costs incurred in connection with the relocation.

Mutually Beneficial Activities (*Public Law 114-92* and *10 U.S.C. § 2350j*) – Accounts established for the acceptance of cash contributions from the government of Kuwait for the purpose of paying for the costs of construction (including military construction not otherwise authorized by law), maintenance, and repair projects mutually beneficial to the Department and Kuwait military forces.

Contributions accepted for the above activities must be available only for the payment of the related costs.

Other Funds

Other Funds from Dedicated Collections have been aggregated in accordance with *SFFAS 43*.

Special Recreation Use Fees (*16 U.S.C. §460l 6a* and *6812(e)(1)*) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs that are under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The fees cover operation and maintenance of recreational sites and camping facilities.

Hydraulic Mining in California, Debris (*33 U.S.C. §683*) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Federal Regulatory Commission (*FERC*). USACE collects taxes and expends the taxes under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 (*33 U.S.C. §701c 3*) – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the county where the property is located or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (*16 U.S.C. §803(f)* and *810*) – The FERC assesses charges against licensees directly benefiting when a reservoir or other improvement is constructed by the United States. Proceeds arising from licenses, except those established by the FERC for administrative reimbursement or other limited situations, are paid to the Treasury from which specific allocations are made. From the specific allocations, a portion of the license fees is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) (*33 U.S.C. §2326*) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary of the Army determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund (*10 U.S.C. §2685*) – Surcharges on sales of commissary goods and services finance construction and improvements to the defense commissary facilities. Revenue is generated through a five percent surcharge applied to each sale. These funds finance construction, repair, improvement, and maintenance, including related environmental evaluation and construction costs, of the physical infrastructure of commissary stores and central product processing facilities of the defense commissary system.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Table 19. Costs and Exchange Revenue by Appropriation Category

As of September 30 *(dollar in millions)*	2022	Restated 2021
Military Retirement Benefits		
Gross Cost	$ 227,354.6	$ 141,244.1
Less: Earned Revenue	(120,470.8)	(74,544.6)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	505,127.6	95,905.8
Net Program Costs	612,011.4	162,605.3
Civil Works		
Gross Cost	12,631.9	12,669.0
Less: Earned Revenue	(2,335.3)	(2,639.7)
Losses (Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	10,296.6	10,029.3
Military Personnel		
Gross Cost	169,083.1	167,230.7
Less: Earned Revenue	(2,505.3)	(3,949.4)
Losses (Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	166,577.8	163,281.3
Operations, Readiness & Support		
Gross Cost	316,028.5	300,067.9
Less: Earned Revenue	(27,572.5)	(35,211.8)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	21,824.2	(13,036.3)
Net Program Costs	310,280.2	251,819.8
Procurement		
Gross Cost	141,906.3	124,634.3
Less: Earned Revenue	(9,831.0)	(6,803.4)
Losses (Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	132,075.3	117,830.9
Research, Development, Test & Evaluation		
Gross Cost	157,464.9	133,512.9
Less: Earned Revenue	(50,716.0)	(31,226.4)
Losses (Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	106,748.9	102,286.5

As of September 30 (dollar in millions)	2022	Restated 2021
Family Housing & Military Construction		
Gross Cost	16,454.0	14,331.7
Less: Earned Revenue	(5,666.1)	(941.1)
Losses (Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	10,787.9	13,390.6
Consolidated		
Gross Cost	1,040,923.3	893,690.6
Less: Earned Revenue	(219,097.0)	(155,316.4)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	526,951.8	82,869.5
Total Net Cost	$ 1,348,778.1	$ 821,243.7

Restatements

The Department corrected a net $2.2 billion understatement of the FY 2021 Operations, Readiness and Support ($1.3 billion understatement); Gross Costs for Research, Development, Test & Evaluation ($12.1 billion overstatement); and Procurement ($12.4 billion understatement); and impacting Earned Revenue ($606.3 million overstatement) which affect the FY 2021 Net Cost of Operations. See Note 28, Restatements for further information.

Other Disclosures

The Statement of Net Cost (SNC) represents the net cost of programs within Department supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output, or outcome, for a given program administered by a responsible reporting entity. The Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The Department is in the process of reviewing available data and developing a cost reporting methodology required by SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS 55, *Amending Inter-Entity Cost Provisions*.

The Department also continues to review the available data and applicability of SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, for disclosures related to the pricing of goods and services provided to the public or another Federal entity. Please see Note 1.E., *Significant Accounting Policies, Accounting for Intragovernmental and Intergovernmental Activities*, for further information related to intra-entity and inter-entity activities.

The Department's military retirement and postemployment costs are reported in accordance with SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC.

FY2022 Earned Revenue for Military Retirement Benefits increased $45.9 billion (62%) due to interest revenue related to the investments of the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund disclosed in Note 5, *Investments and Related Interest*.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Cumulative Results of Operations – Prior Period Adjustments

The Department recorded prior period adjustments under *SFFAS 21*, *SFFAS 48*, and *SFFAS 50*, that decreased the FY 2022 beginning balance from ($297.8) billion to ($302.3) billion, a difference of $4.5 billion. In FY 2021, the Department recorded prior period adjustments that increased the 2021 beginning balance from ($332.4) billion to ($322.0) billion, a difference of $10.4 billion. These prior period adjustments are attributable to the Corrections of Errors and Changes in Accounting Principles.

DoD components have been electing to change their accounting principles. FASAB issued SFFAS 48 and SFFAS 50, which permitted alternative methods in establishing opening balances and were effective for periods beginning after September 30, 2016. In FY 2022, these changes in accounting principles decreased the beginning Cumulative Results of Operations by $4.5 billion as the components established opening balances for real property and vessels. In FY 2021, these changes in accounting principles increased the beginning Cumulative Results of Operations by $3.6 billion as the components established opening balances for General PP&E.

Restatements

In addition to the prior period adjustments to Cumulative Results of Operations, the Department restated its Statement of Changes in Net Position as of September 30, 2021 to correct errors in:

- Accounts Receivable, Net Intragovernmental (was overstated by $606.3 million)
- Accounts Receivable, Net Other than Intragovernmental (was understated by $540.8 million)
- Inventory and Related Property, Net (was understated by $107.6 million)
- General PP&E (was understated by $5,740.7 million)
- Accounts Payable, Other than Intragovernmental (was understated by $178.0 million)
- Transfers in/out without reimbursement (was understated by $1,009.3 million)
- Cumulative Results of Operations – Other (was understated by $0.1 million)
- Net Cost of Operations (was understated by $2,234.9 million)

See Note 28, *Restatements*, and other Notes cited there for further information.

Reconciliation Differences

Statement of Budgetary Resources to the Statement of Changes in Net Position

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by $79.2 billion in FY 2022 and $72.6 billion in FY 2021. A reconciliation of these amounts is presented in Table 20A.

Table 20A. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

As of September 30 *(dollar in billions)*	**2022**	**2021**
Appropriations, Statement of Budgetary Resources	$ 1,019.5	$ 905.1
Permanent and Temporary Reductions	205.3	144.4
Trust and Special Fund Receipts	(283.1)	(215.9)
Miscellaneous items	(1.4)	(1.1)
Total Reconciling Difference	(79.2)	(72.6)
Appropriations Received, Statement of Changes in Net Position	$ 940.3	$ 832.5

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority that has been permanently or temporarily reduced by enacted legislation.

Trust and Special Fund Receipts that are awaiting authorizing legislation or the satisfying of specific legal requirements are not immediately available for obligation.

Miscellaneous Items primarily include the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

Non-custodial Nonexchange Revenue

The Department is assessing the applicability of SFFAS 7 *Accounting for Revenues and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* disclosure requirements for non-custodial nonexchange revenue. The U.S. Army Corps of Engineers (USACE) reported the majority of the Department's non-custodial nonexchange revenue for FY 2022. The USACE recognizes non-custodial nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. The USACE reported the following non-custodial nonexchange revenue:

- Trust Funds - interest earned on investments, excise taxes and custom duties
- General Fund Receipt Accounts – miscellaneous receipts, penalties and donations
- Special Fund Receipt Accounts – taxes, receipts, licenses, and fees

For the majority of the non-custodial nonexchange revenue recognized in FY 2022, USACE is not the collecting entity, but receives trust fund revenues from Treasury which is recorded in accordance with applicable law.

Other Disclosures

See Note 18, *Funds from Dedicated Collections*, for disclosures related to the parenthetical presentation of funds from dedicated collections on Statement of Changes in Net Position.

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with OMB *Circular No. A 136*; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other financial statements, which are presented on a consolidated basis.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

There were no material adjustments during FY 2022 to the budgetary resources available at the beginning of the year.

Terms of Borrowing Authority Used

Borrowing authority is budget authority enacted by law to permit obligations and disbursements against amounts borrowed for a specific purpose. The Department utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB *Circular No. A 129*. See Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, for additional information related to MHPI.

Available Borrowing/Contract Authority, End of Period

Table 21A. Available Borrowing / Contract Authority

No available borrowing authority remained at the end of the period for FY 2022 or 2021.

Undelivered Orders at the End of the Period

Unpaid undelivered orders exist when goods or services have been obligated but have not been paid or received. Prepaid or advanced undelivered orders exist when goods or services have been obligated and paid but the goods or services have not been received.

Undelivered Orders at the End of the Period
Table 21B. Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30 *(dollar in millions)*	2022	Restated 2021
Intragovernmental		
Unpaid	$ 103,538.2	$ 112,052.0
Prepaid / Advanced	4,101.0	4,562.1
Total Intragovernmental	107,639.2	116,614.1
Non-Federal		
Unpaid	440,157.9	411,438.7
Prepaid / Advanced	15,002.2	20,421.7
Total Non-Federal	455,160.1	431,860.4
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 562,799.3	$ 548,474.5

For purposes of the above table, the breakout of the total Budgetary Resources Obligated for Undelivered Orders at the End of the Period are estimated allocations by DoD Components between Intragovernmental and Non-Federal and between Unpaid and Prepaid/Advanced. During FY 2022, a Component became aware of corrections to the FY 2021 data, although the total is unchanged. These revised estimates for FY 2021 corrected an under-estimate of $57.5 million for Intragovernmental Prepaid/Advanced, an over-estimate of $58.2 million for Non-Federal Unpaid, and an under-estimate of $0.7 million for Non-Federal Prepaid/Advanced. The changes in estimates do not affect the underlying records of the SBR and are, therefore, not included in Note 28, *Restatements*.

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the Department's unobligated balances represent trust fund receipts collected in the fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by public law. The receipts, however, are assets of the funds and are available for obligation in the future.

Explanation of Differences between the SBR and the Budget of the U.S. Government

The table below presents a reconciliation between the FY 2021 Combined SBR to the actual amounts reported for FY 2021 Budget of the U.S. Government (also known as the President's Budget). The FY 2024 President's Budget will display the FY 2022 actual values and will be available at a later date at https://www.whitehouse.gov/omb/budget.

Table 21C. Explanation of Differences between the SBR and the Budget of the U.S. Government

As of September 30 *(dollar in millions)*	Fiscal Year 2021 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	$ 1,344.8	$ 1,169.3	$ 125.2	$ 908.6
Expired Accounts Excluded from the Budget	(40.3)	(19.5)	-	-
Closed Accounts included in the Budget	-	-	-	-
Permanent Reporting Differences*	(0.1)	(0.1)	-	-
Other	0.2	0.2	-	-
Budget of the U.S. Government	$ 1,304.6	$ 1,149.9	$ 125.2	$ 908.6

* The difference reported above for Budgetary Resources and New Obligations and Upward Adjustments is due to different reporting requirements on the SBR versus the Budget.

Other Disclosures

In compliance with OMB guidance, both the $167.9 billion of FY 2022 and $148.6 billion of FY 2021 General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds, within the Appropriations (discretionary and mandatory) line. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received additional funding of $68.0 billion in FY 2021 to cover obligations incurred above baseline operations in support of contingency operations. The Department did not receive any additional funding for FY 2022.

The SBR reflects an unobligated expired appropriations in the amount of $23.0 billion, which is 2 percent of total budget authority. The Department strives to obligate, as close as prudently possible, to the total available budget authority before it expires. Its internal controls and systemic administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the *Antideficiency Act*. The enormous number of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting edge or high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by *31.U.S.C. §1553*.

Permanent Indefinite Appropriations:

Permanent indefinite appropriations are provided through public law authorizing the Department to retain certain receipts. These appropriations do not specify amounts but are dependent upon the amount of receipts collected. Permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

In FY 2022 and FY 2021, the Department collected $2.6 million and $41.7 million, respectively, of incidental custodial revenues generated primarily from fines, penalties, and forfeitures of unclaimed money and property. These funds are not available for use by the Department; the accounts are closed and relinquished to the U.S. Treasury at the end of the fiscal year.

NOTE 23. FIDUCIARY ACTIVITIES

Table 23A. Schedule of Fiduciary Activities

As of September 30 *(dollar in millions)*	2022		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	$ 1,496.3	$ 41.1	$ 1,537.4
Contributions	759.0	46.3	805.3
Investment Earnings	-	0.6	0.6
Distributions To and On Behalf Of Beneficiaries	(476.4)	(61.9)	(538.3)
Increase / (Decrease) in Fiduciary Net Assets	282.6	(15.0)	267.6
Fiduciary Net Assets, End of Period	$ 1,778.9	$ 26.1	$ 1,805.0

As of September 30 *(dollar in millions)*	2021		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Net Assets, Beginning of Year	$ 909.4	$ 63.4	$ 972.8
Contributions	1,008.5	66.2	1,074.7
Investment Earnings	-	-	-
Distributions To and On Behalf Of Beneficiaries	(421.6)	(88.5)	(510.1)
Increase / (Decrease) in Fiduciary Net Assets	586.9	(22.3)	564.6
Fiduciary Net Assets, End of Period	$ 1,496.3	$ 41.1	$ 1,537.4

Table 23B. Schedule of Fiduciary Net Assets

As of September 30 (dollar in millions)	2022		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	$ 1,778.9	$ 26.1	$ 1,805.0
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	$ 1,778.9	$ 26.1	$ 1,805.0

As of September 30 (dollar in millions)	2021		
	Foreign Cooperative Project, Navy	Savings Deposit Program	Total
Fiduciary Assets			
Fund Balance with Treasury	$ 1,496.3	$ 41.1	$ 1,537.4
Fiduciary Liabilities			
Less: Liabilities	-	-	-
Total Fiduciary Net Assets	$ 1,496.3	$ 41.1	$ 1,537.4

Fiduciary activities exist when the Department has collected, received, managed, protected, accounted for, invested or disposed of assets on behalf of non-Federal entities or individuals which have ownership interest that the government must uphold. Fiduciary assets are not recognized on the Balance Sheet or on Note 3, *Fund Balance with Treasury*, in accordance with *SFFAS 31*.

Foreign Cooperative Project, Navy

In an effort to leverage share of costs, contracts, and other resources where shared interests exist, the President may enter into a cooperative project agreement with the North Atlantic Treaty Organization or with one or more of its member countries authorized by *22 U.S.C. §2767*. The Navy recognizes this activity as fiduciary through an established deposit fund which allows it to continue providing support to foreign governments without utilizing or encumbering any reimbursable authority.

Savings Deposit Program

Public Law 89 538 authorized the Department, through Savings Deposit Program (SDP), to collect voluntary contributions up to $10,000 per deployment, per member of the Armed Forces serving in designated areas. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as a separate fund. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member through direct deposit by the Department. Funds in excess of $10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations.

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NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

Table 24. Reconciliation of the Net Cost of Operations to Net Outlays

As of September 30 *(dollar in millions)*	2022		
	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ (118,324.5)	$ 1,467,102.6	$ 1,348,778.1
Components of Net Cost Not Part of Net Outlays			
General property, plant, and equipment, net change	-	5,851.9	5,851.9
Change in inventory and related property, net	-	20,246.1	20,246.1
Increase/(decrease) in assets:			
Accounts and taxes receivable, net	(5,127.6)	3,610.7	(1,516.9)
Securities and investments	93,879.0	-	93,879.0
Other assets	578.2	(6,580.8)	(6,002.6)
Increase/(decrease) in liabilities:			
Accounts payable	2,346.4	2,023.3	4,369.7
Loans guarantee liability	-	6.6	6.6
Environmental and disposal liabilities	-	(8,602.7)	(8,602.7)
Benefits due and payable	-	0.4	0.4
Federal employee and veteran benefits payable	-	(755,529.2)	(755,529.2)
Other liabilities	(530.8)	1,819.5	1,288.7
Other financing sources:			
Imputed Cost	(5,136.4)	-	(5,136.4)
Donated Revenue	-	-	-
Total Components of Net Cost Not Part of Net Outlays	86,008.8	(737,154.2)	(651,145.4)
Components of Net Outlays Not Part of Net Cost			
Investments	7.0	-	7.0
Other	150.5	-	150.5
Financing sources:			
Donated revenue	-	(109.7)	(109.7)
Total Components of Net Outlays Not Part of Net Cost	157.5	(109.7)	47.8
Miscellaneous Reconciling Items			
Transfers (in)/out without reimbursements	67,610.4	-	67,610.4
Distributed offsetting receipts	192.5	(1,120.8)	(928.3)
Other	48,059.8	(16,612.8)	31,447.0
Total Other Reconciling Items	115,862.7	(17,733.6)	98,129.1
Total Net Outlays	$ 83,704.5	$ 712,105.1	$ 795,809.6
Agencies Outlays, Net (Statement of Budgetary Resources)			$ 791,558.5
Unreconciled Difference			$ 4,251.1

As of September 30 *(dollar in millions)*	2021		
	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ (59,298.6)	$ 880,542.3	$ 821,243.7
Components of Net Cost Not Part of Net Outlays			
General property, plant, and equipment, net change	-	30,465.6	30,465.6
Change in inventory and related property, net	-	16,836.7	16,836.7
Increase/(decrease) in assets:			
Accounts and taxes receivable, net	4,522.7	882.5	5,405.2
Securities and investments	57,693.7	-	57,693.7
Other assets	(502.9)	185.5	(317.4)
Increase/(decrease) in liabilities:			
Accounts payable	(2,491.9)	(3,420.6)	(5,912.5)
Loans guarantee liability	-	6.5	6.5
Environmental and disposal liabilities	-	(6,921.5)	(6,921.5)
Benefits due and payable	-	0.2	0.2
Federal employee and veteran benefits payable	-	(155,000.0)	(155,000.0)
Other liabilities	726.2	(2,505.0)	(1,778.8)
Other financing sources:			
Imputed Cost	(5,174.8)		(5,174.8)
Donated Revenue	-	-	-
Total Components of Net Cost Not Part of Net Outlays	54,773.0	(119,470.1)	(64,697.1)
Components of Net Outlays Not Part of Net Cost			
Investments	(17.7)	7,850.2	7,832.5
Other	154.6	-	154.6
Financing sources:			
Donated revenue	-	(84.3)	(84.3)
Total Components of Net Outlays Not Part of Net Cost	136.9	7,765.9	7,902.8
Miscellaneous Reconciling Items			
Transfers (in)/out without reimbursements	(1,121.3)	-	(1,121.3)
Distributed offsetting receipts	85.8	(1,029.3)	(943.5)
Other	46,434.9	(15,752.7)	30,682.2
Total Other Reconciling Items	45,399.4	(16,782.0)	28,617.4
Total Net Outlays	$ 41,010.7	$ 752,056.1	$ 793,066.8
Agencies Outlays, Net (Statement of Budgetary Resources)			$ 783,480.3
Unreconciled Difference			$ 9,586.5

Restatements

The Department corrected FY 2021 balances affecting lines on the table above to correct errors in:

- Accounts Receivable, Net Intragovernmental (was overstated by $606.3 million)
- Accounts Receivable, Net Other than Intragovernmental (was understated by $540.8 million)
- Inventory and Related Property, Net (was understated by $107.6 million)
- General PP&E (was understated by $5,740.7 million)
- Accounts Payable, Other than Intragovernmental (was understated by $178.0 million)
- Transfers in/out without reimbursement (was understated by $1,009.3 million)
- Cumulative Results of Operations – Other (was understated by $0.1 million)
- Net Cost of Operations (was understated by $2,234.9 million)

See Note 28, *Restatements*, and other Notes cited there for further information.

Other Disclosures

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between Net Cost of Operations, reported on the Statement of Net Cost, and Net Outlays, reported on the Statement of Budgetary Resources. Net Cost of Operations is reported on an accrual basis and Net Outlays is reported on a budgetary basis.

While financial (proprietary) and budgetary accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Department's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the receipt and use of cash by the Department. Outlays are payments to liquidate an obligation, excluding repayment to the Treasury of debt principle.

The reconciliation illustrates key items between Net Cost of Operations and Net Outlays which includes three sections.

- Components of Net Cost Not Part of Net Budgetary Outlays primarily consists of a $755.5 billion increase in Federal Employee and Veteran Benefits Payable related to changes in actuarial assumptions, plan amendments, and increased interest costs. See Note 13, *Federal Employee and Veterans Benefits Payable* for additional information.
- Components of Net Outlays Not Part of Net Cost includes a $150.5 million on the Other line related to transfers to the Department of Veterans Affairs for education benefits. See Note 13, *Federal Employee and Veterans Benefits Payable* for additional information.
- Miscellaneous Reconciling Items, includes $67.6 billion of transfers-in of the United States Coast Guard actuarial liabilities, as well as $48.1 billion on the Other line recognized as outlays in pass-through entities for Military Services contributions and Treasury payments to certain trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information, specifically the first paragraph under the Other Disclosures section. Note 24 only includes the undistributed amount related to this business versus the entire appropriation included in Note 21.

The Unreconciled Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collection on the Statement of Net Cost and Statement of Budgetary Resources. Research is on-going to resolve the remaining difference.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships (P3s) are risk-sharing agreements between public and private sector entities with expected lives greater than five years. P3s can be extremely complex agreements which transfer or share various forms of risk among the P3 partners and may involve government assets. Disclosure of P3s fosters accountability and improves understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. *SFFAS 49* Public-Private Partnerships, requires disclosing the nature of DoDs relationship with private entities. These disclosures help achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts *(SFFAC) 1*, Objectives of Federal Financial Reporting, by making P3s more understandable.

The Department identified Military Housing Privatization Initiative (MHPI) agreements as P3s requiring disclosure. Military Departments are reviewing the details of individual agreements to ensure the underlying transactions are recorded and reported in accordance with GAAP. Due to the complexity of some of the MHPI agreements, the Department may need to adjust previously recorded transactions to be GAAP compliant. Additionally, the Department continues researching and analyzing the materiality of prospective adjustments, which may impact the financial position and results of operations of the MHPI agreements.

Overview

MHPI agreements are with private sector entities established as Limited Liability Companies (LLC) or Limited Partnerships (LP). These MHPI project LLC and LP entities with Private Partners serve as the projects' managing members and have direct managerial control allowing the Department to work with the private sector to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in MHPI agreements, the DoD benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow.

MHPI authority stems from the National Defense Authorization Act for Fiscal Year 1996, *Public Law 104-106* (110 Stat 186, Section 2801). *Title 10 U.S.C. §§ 2871-2885* codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. Private Partners serve as the majority managing member ensuring performance objectives are met over the expected life of the agreement. Military Departments generally serve as the minority member and enter a long-term ground lease (generally 50 years), and convey the associated real property assets (buildings, structures, facilities, and utilities) to the MHPI project LLC or LP. The contractual terms and termination clauses vary by agreement. The Department's involvement in the operations and management of the MHPI project LLC or LP is governed by evaluating the percentage of ownership interest and analyzing ownership control indicators, which determine the level of influence over the partnership.

Funding and Contributions

The Department provides funding to the LLC or LP through:

- **Equity Investments** - Provision of cash and transfer of real property ownership (land, housing units, and other structures) to a project and, in return, the DoD receives a portion of that project's profits and losses. If the investment is sold, the DoD receives compensation;
- **Government Direct Loans** - Provision of cash to a project with the expectation of future payment;
- **Government Loan Guarantees** - Agreement to pay a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project;
- **Differential Lease Payments** - Provision of monthly payments to a project above the Basic Allowance for Housing (BAH) paid by the military personnel.

See Note 7, *Loan Receivable, Net and Loan Guarantee Liabilities.*

Cash contribution from the Department's Family Housing Improvement Fund (FHIF) or Military Unaccompanied Housing Improvement Fund (MUHIF) requires Congressional notification. *10 U.S.C. § 2883* also requires providing a justification to Congress for the transfer of authorized and appropriated amounts (i.e. Army General Fund, Treasury Index 21 Family Housing Construction Funds) to the Department's FHIP (i.e. Other Defense Organizations, Treasury Index 97) for the acquisition, improvement, or construction of military family housing. The expected life of each MHPI agreement corresponds to the length of the ground lease. The agreement is established through negotiations between Military Departments and the MHPI project LLC and LP. At the inception of the agreement, the project duration to establish housing determines the amount of DoD contributions. The Military Departments are not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF or MUHIF. However, the enactment of *Public Law 115-91 § 603*, required the Military Departments to make monthly direct payments to the MHPI entities (lessors) of 1% of the BAH amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under the military pay statute in *37 U.S.C. § 403(b)(3)(A)(i)* for the area in which the covered housing existed. From September 1, 2018 through December 31, 2019, *Public Law 115-232 § 606* required the Military Departments to make monthly direct payments to the MHPI entities (lessor) of 5% of the BAH. From January 1, 2020 forward, *Public Law 116-92 §§ 3036 and 3037* require the Military Departments to make monthly direct payments to the MHPI entities of 2.5% of BAH. Furthermore, monthly underfunded projects may receive up to an additional 2.5% of BAH at the determination of the DoD Chief Housing Officer and Secretaries of the Military Departments. Upon termination of the leasehold interest (ground lease), all assets revert to the Department at no-cost to either party. Upon dissolution of the MHPI project LLC or LP and after the contractual terms have been met, excess funds will be returned to the FHIF.

The following tables represent the aggregated contribution amounts paid to the MHPI Program and LLC and LP Private Partners through September 30, 2022:

Military Housing Privatization Initiative (MHPI)
Table 25. Cumulative Contributions as of September 30, 2022

As of September 30 *(dollar in millions)*	2022	2021
DoD Initial Contributions to the MHPI Programs *		
Direct cash contributions (see Note 5 [regarding Other Investments])	$ 4,126.2	$ 4,126.2
Real property contributions to the LLCs & LPs (value of Real Property Assets (RPA) conveyed, per OMB Scoring Documents) (see Note 5 [regarding Other Investments])	7,901.6	7,901.6
Bonds	-	-
Direct loans disbursed	1,831.9	1,931.5
DoD On-Going Contributions to the DoD MHPI Partnerships		
DoD direct payments as required by Pub. L. 115-91 § 603 (1% BAH) and 15-232 § 606 (5% BAH) as of FY 2019	835.2	478.4
Basic allowance for housing (BAH) under § 403 of Title 37 to members living in privatized housing for FY2022 and FY2021	6,737.4	5,672.3
Differential lease payments	16.5	16.5
Property, cash, bonds, and loans	-	-
Private Partner Initial Contributions to the MHPI Partnerships		
Direct cash contributions	624.2	618.1
Real property contributions to the LLCs and LPs	1.5	1.5
Bonds	18,822.5	18,885.3
Direct loans disbursed	2.5	2.5
Private Partner On-Going Contributions to the MHPI Partnerships		
Direct cash contributions	-	277.3
Bonds/Loans contributed	8,701.3	12,731.7
Real property and land contributions	51.7	0.3

*The DoD cash and real property contributions in the table above are currently reported in the DoD's consolidated financial statements. See Note 5, *Investments and Related Interest*. Variances to Note 5 are being researched.

Risk

Private Partner potential risks include:

1. inability to recover returns on investment
2. default under the ground lease
3. loss of a long-term revenue source

The Private Partner is not entitled to the return of its capital contribution, or to be paid interest on its capital contribution.

DoD's potential risks include:

1. loss of the initial cash and non-cash contributions
2. default by the MHPI project LLC or LP on a GDL
3. guarantee threshold event, such as the need to request additional funds above the initial threshold amount triggered under a loan guarantee agreement
4. need to provide direct management support and financial contribution to the project until its completion if the Private Partner fails to comply with contractual terms
5. failure to deliver quality housing services to military personnel

If unpredicted events occur, such as natural disasters and severe weather events, the Military Departments may need to provide resources, depending on the terms of the partnership agreement and MHPI statute.

To mitigate financial risk, each MHPI agreement prescribes to accrual accounting (revenue flow) to include liquidation of the agreement. This financial tool is used to track revenue, expenses, cash flow, and operating metrics. The revenue flow generally allows the Private Partner an opportunity to earn incentives and returns for economic performance after providing capital for the maintenance of the facilities. Cash and non-cash assets in excess of required reserves are returned to the FHIF at agreement liquidation.

The MHPI agreements do not explicitly identify risk of loss contingencies, although some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds to protect against unexpectedly high expenses. The Department's overall risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer), plus the commercial loan guarantees associated with the MHPI agreements.
The Department recognizes other risk scenarios may occur, such as Private Partner non-compliance with the MHPI agreements or risk of loan modifications. To address non-compliance risk, the Department performs compliance reviews. A joint effort between the Military Department local housing office, installation command, and other ranking members with the Private Partners. These reviews can include exterior of military housing units and neighborhood tours to view project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the MHPI project LLC or LP.

Private Partner performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. The Government Accountability Office Report, *GAO-20-280T*, *Preliminary Observations on DoD's Oversight of the Condition of Privatized Military Housing*, provides information about the Department's governance activities. The *NDAA for 2020* §§ 3001-3064 prescribes the authoritative guidance which defines the accountability and oversight measures of MHPI projects, protections and responsibilities for tenants, and any additional requirements relating to contracts and management of MHPI projects.

To address the risk of loan modifications or restructures, which may be necessary to ensure the sustainability of affected projects, a sustainment review is required to be performed every two to three years, outlining the future needs of a project. This review occurs even when the projects may not be at risk of imminent loan default. On an annual basis, the Department is required to re-forecast projected cash flows to assess each project's sustainability. If the assessment results in a funding shortfall or going concern for the project, a loan modification may be requested from the OMB. OMB is required to approve all loan modifications before the applicable Military Department and MHPI project LLC or LP can begin to restructure the loan.

Investment Recognition

Beginning in FY 2020, the Department adopted *FASB ASC 323* Investments – Equity Method and Joint Ventures to account for its investments in LLC and LP Private Partnerships engaged in MHPI projects. This treatment was chosen in the absence of specific FASAB accounting standards for the MHPI financial arrangement. During FY 2021, the Department performed additional analysis and research, resulting in a revised DoD policy. This policy refined the guidance and instructions prescribing financial treatment to account for and report investments and contributions to the MHPI projects. The revised guidance provides detail instruction on recording initial cash and non-cash asset contributions and recording gains and losses at the dissolution of the agreements. The Department is continuing to evaluate the most applicable GAAP compliant methodology to report profits and losses on the initial and on-going contributions to the investments.

Other Disclosures

The Military Departments continue to provide MHPI details within their AFR, for example description of contractual terms, significant events, inherent risks, and gains or losses associated with contributions to the MHPI project LLC or LP. As main contributors of P3 activity, please refer to Army, Navy, and Air Force AFRs.

The Military Departments are assessing their MHPI agreements in an effort to provide actual and estimated amounts paid and received for future periods.

See Note 5, *Investments and Related Interest* for DoD's consolidated cash and real property contributions.

Other Potential P3 Arrangements

All DoD Components continue to assess agreements using criteria from *SFFAS 49* to determine if there are additional P3s to disclose. The Department will report these agreements as soon as these assessments are complete.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

Disclosure Entities

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). In accordance with SFFAS 47 "Reporting Entity", the financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents; however, these entities are disclosed in this Note as their risk and rewards and assets (available for use) and liabilities (to be settled in the future) are limited. The quantitative amounts of the Department's appropriated funding support for NAFIs and FFRDCs are FY 2021 balances reported one year in arrears.

Nonappropriated Fund Instrumentalities

NAFIs are entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to provide morale, welfare, and recreation programs to enhance the quality of life of DoD personnel. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of *10 U.S.C.* The Department requires Components to assign organizational responsibility for NAFI administration, management, and control. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

1. Military Morale, Welfare, and Recreational (*MWR*) Programs,
2. Armed Services Exchange Programs,
3. Civilian MWR Programs,
4. Lodging Program Supplemental Mission Funds,
5. Supplemental Mission Funds, and
6. Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) establishes policy and provides oversight of DoD NAFI activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) and the Defense Finance and Accounting Service (DFAS), in coordination with the USD(P&R) and General Counsel, provide guidance on accounting policies for use in the preparation of financial statements for their annual audit. DoD Components appoint advisory groups to ensure that each NAFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial audits conducted by independent public accounting firms.

NAFIs present very limited financial and non-financial risks to the Department. NAFIs are separate legal entities apart from the DoD, and they are operated and accounted for in financial systems separate from DoD. Historically, appropriated funding in support of the NAFIs is less than one percent of the sponsor's budgetary resources. Together, these factors limit the Federal Government's financial exposure.

Federally Funded Research and Development Centers

The DoD-sponsored FFRDCs are independent, not-for-profit, private-sector organizations that are established and funded to meet special long-term engineering, research, development, or other analytical needs. In accordance with *FAR Part 35-017*, FFRDCs enable agencies to use private sector resources to accomplish tasks that are integral to the mission and operation of the sponsoring agency. The Department maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing in-house or contractor resources. The work performed by the FFRDCs provide benefits to the Department, which support national security. There are three categories of FFRDCs:

- Research and Development Laboratories,
- Systems Engineering and Integration Centers, and
- Study and Analysis Centers.

FFRDC relationships are defined through a sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the FFRDC is required to conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, be free from organizational conflicts of interest, and have full disclosure of its affairs to the sponsoring agency.

The Department does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets constraints on the amount of staff-years of technical effort that may be funded for FFRDCs. Historically, funding for FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional funding controls on staff-years, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

Related Parties

Pursuant to SFFAS 47 reporting disclosure requirements, related parties are considered related if: (1) one party to an established relationship, has the ability to exercise significant influence over the other party in making policy decisions and (2) the relationship is of such significant that it would be misleading to exclude information about it. While the Department identified Public Private Partnerships (P3s) as related parties in prior years, the Department performed assessments of P3s and determined that these partnerships and relationships do not meet the criteria to be reported as related parties, because they meet the inclusion principles defined in SFFAS 47: a) In the Budget, b) Majority Ownership Interest, c) Control with Risk of Loss or Expectation of Benefit. The Department's Military Housing Privatization Initiative P3s meet the criteria for disclosure entities, in accordance with SFFAS 47. See Note 25, *Public Private Partnerships* for additional disclosure details and information.

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

The DoD has a significant role, and works closely with the U.S. Department of State in the execution of the activities of the Security Assistance Accounts (SAA), which is budgeted and reported in *Title 22, Foreign Relations and Intercourse* under the purview of the Foreign Relations Committee in Congress. The SAA is a significant reporting entity, and in accordance with SFFAS 47 "Reporting Entity", its stand-alone financial statements are consolidated directly into the U.S. Government-wide financial statements. See the *SAA Agency Financial Report* for additional information.

The DoD leverages its financial and acquisition systems to facilitate the acquisition of U.S. weapon systems by foreign countries. Based on the contract terms included in the agreements with each foreign country acquiring assets utilizing the Foreign Military Sales Trust Fund, there is minimal financial risk to the DoD or the U.S. Government resulting from the transactions entered into.

NOTE 28. RESTATEMENTS

In addition to the consolidated audit on the DoD-wide financial statements, twenty-seven Components within the Department underwent independent standalone audits in FY 2022. These Components include the Components with the highest asset values, as well as those deemed by management to be special-focus. While striving to maintain or moving closer to achieving an unmodified audit opinion, Components may uncover accounting errors related to a prior fiscal year. SFFAS 21 *Reporting Corrections of Errors and Changes in Accounting Principles* requires a restatement of the prior year presented when material errors are discovered in the prior period financial statements. In FY 2022, some Components restated the prior year presentation, in certain cases even when the amounts were individually immaterial, as opposed to including the effects of a prior year error in the current year activity.

The Department restated its financial statements as of September 30, 2021 for the following. The net effects of the restatements on each financial statement line affected are included in the Table 28B.

- Accounts Receivable, Net (Intragovernmental) was overstated due to accounting transactions that were being duplicated in the source system.
- Accounts Receivable, Net (Other than Intragovernmental) was understated due to offline adjustments made after the reporting system had closed for Fiscal Year 2021.
- Inventory and Related Property, Net was understated due to incorrect work-in-process balances at the end of the reporting period as well as asset balances that were previously recorded in a legacy system but not the reporting system.
- General Property, Plant, and Equipment, Net was understated due to asset balances that were previously recorded in a legacy system but not the reporting system, incorrect accumulated depreciation amounts recorded in Fiscal Years 2019 through 2021, updated Construction-in-Progress billing models, and offline adjustments that were made after the reporting system had closed for Fiscal Year 2021.
- Accounts Payable (Other than Intragovernmental) was understated due to offline adjustments made after the reporting system had closed for Fiscal Year 2021.
- Cumulative Results of Operations – Beginning Balances and Prior Period Adjustments were understated primarily due to asset balances that were previously recorded in a legacy system but not the reporting system, incorrect accumulated depreciation amounts recorded in Fiscal Years 2019 through 2021, as well as offline adjustments that were made after the reporting system had closed for Fiscal Year 2021.
- Transfers in/out without reimbursement was understated due to asset balances that were previously recorded in a legacy system but not the reporting system and offline adjustments made after the reporting system had closed for Fiscal Year 2021.
- Cumulative Results of Operations – Other was understated due to asset balances that were previously recorded in a legacy system but not the reporting system.
- Net Cost of Operations was understated due to asset balances that were previously recorded in a legacy system but not the reporting system, accounting transactions that were being duplicated in the source system, incorrect accumulated depreciation amounts recorded in Fiscal Years 2019 through 2021, and updated Construction-in-Progress billing models.

The following notes were restated: Note 2, *Non-Entity Assets*, Note 3, *Fund Balance with Treasury**, Note 6, *Accounts Receivable*, Net, Note 8, *Inventory and Related Property*, Net, Note 9, *General PP&E, Net*, Note 11, *Liabilities Not Covered by Budgetary Resources*, Note 19, *Disclosures Related to the Statement of Net Cost*, Note 20, *Disclosures Related to the Statement of Changes in Net Position*, and Note 24, R*econciliation of Net Cost to Net Budgetary Outlays*.

* Although the activity on Note 3 was revised due to a restatement, the net change on the Note 3 total was zero. The Department's Fund Balance with Treasury did not change.

NOTE 28. RESTATEMENTS

Table 28A. Effect on FY 2022 Beginning Cumulative Results of Operations

(dollar in millions)	Prior to Restatements	Effect of Restatements	After Restatements
FY2022 Net Position			
Cumulative Results of Operations - Other Funds	(859,631.7)	5,604.8	(854,026.9)
Total Net Position	**(232,450.0)**	**5,604.8**	**(226,845.2)**

Table 28B. Effect on FY2021 Comparative Balances

(dollar in millions)	Per FY2021 Statements	Effect of FY2022 Restatements	After Restatements
FY2021 Balance Sheet			
Accounts Receivable, Net - Intragovernmental	5,170.3	(606.3)	4,564.0
Accounts Receivable, Net - Other Than Intragovernmental	5,649.8	540.8	6,190.6
Inventory and Related Property, Net	326,939.6	107.6	327,047.2
General PP&E, Net	810,150.8	5,740.7	815,891.5
Total Assets	**3,237,319.0**	**5,782.8**	**3,243,101.8**
Accounts Payable - Other Than Intragovernmental	39,363.8	178.0	39,541.8
Total Liabilities	**2,987,857.9**	**178.0**	**2,988,035.9**
Cumulative Results of Operations - Other Funds	(318,593.7)	5,604.8	(312,988.9)
Total Net Position	**249,461.1**	**5,604.8**	**255,065.9**
FY2021 Statement of Changes in Net Position			
Cumulative Results of Operations - Beginning Balances	(328,658.9)	(3,786.8)	(332,445.7)
Cumulative Results of Operations - Prior Period Adjustments - Changes in Accounting Principles	789.5	2,842.2	3,631.7
Cumulative Results of Operations - Prior Period Adjustments - Corrections of Errors	(944.7)	7,775.0	6,830.3
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)**	(328,814.1)	6,830.4	(321,983.7)
Transfers in/out without reimbursement	275.1	1,009.3	1,284.4
Net Cost of Operations	819,008.8	2,234.9	821,243.7
Net Change in Cumulative Results of Operations**	25,406.7	(1,225.6)	24,181.1
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	**(303,407.4)**	**5,604.8**	**(297,802.6)**
Net Position	**249,461.1**	**5,604.8**	**255,065.9**
FY2021 Statement of Net Cost			
Gross Costs**	892,062.0	1,628.6	893,690.6
Gross Costs - Operations, Readiness & Support	298,728.9	1,339.0	300,067.9
Gross Costs - Procurement	112,233.2	12,401.1	124,634.3
Gross Costs - Research, Development, Test & Evaluation	145,624.3	(12,111.4)	133,512.9
(Less: Earned Revenue)	(155,922.7)	606.3	(155,316.4)
Net Cost before Losses/(Gains) from Actuarial Assumption**	736,139.3	2,234.9	738,374.2
Net Cost including Assumption Changes	819,008.8	2,234.9	821,243.7
Net Cost of Operations**	**819,008.8**	**2,234.9**	**821,243.7**

The amounts presented in the "Per FY2021 Statements" column are based on the presentation of the current financial statements which had significant changes during FY2022 and may not tie to the FY2021 AFR.

NOTE 29. COVID-19 ACTIVITY

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and federal, state and local government operations. In FY 2020, two of these public laws had a direct impact on the Department through the provision of $10.7 billion in supplemental appropriations. Additional supplemental funding was not received for FY 2022 or FY 2021.

Families First Coronavirus Response Act

The Families First Coronavirus Response Act (FFCRA) (Public Law 116-127) was signed into law on March 18, 2020. FFCRA responds to the COVID-19 outbreak by providing paid sick leave, tax credits, free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding. The provisions of the FFCRA included $82.0 million in emergency supplemental Operations and Maintenance funding for the Defense Health Program to waive TRICARE participant copayments and cost sharing associated with COVID-19 related testing and medical visits. The funds are to remain available until September 30, 2022 or until the funds are used, whichever occurs first. For additional information on TRICARE, see Note 1. *Significant Accounting Policies, R. Other Liabilities.*

Families First Coronavirus Response Act
Table 29A. - FY2020 DoD Appropriations in the FFCRA (P.L. 116-127)

Appropriations Enacted	(dollar in millions)	
Defense Health Program	$	82.0
Defense-Wide Total		82.0
TOTAL DoD Appropriations	$	82.0

Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) (Public Law 116-136) was signed into law, which provided FY2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations were designated as emergency spending, which is exempt from discretionary spending limits. Within the DoD budget, the CARES Act provided the Department with $10.6 billion in supplemental funding for National Guard personnel, operation and maintenance, Defense Production Act (50 U.S.C.) purchases, the Defense Working Capital Funds, the Defense Health Agency, and the Office of the Inspector General.

In an effort to quickly respond to pandemic needs, the CARES Act waives certain contract restrictions for the Department to authorize contractors to begin work before reaching a final agreement on contract terms, specifications, or price, where it is determined the waiver is necessary due to the national emergency for COVID-19. The CARES Act also allows the DoD to waive certain restrictions on the usage of other transaction authority in contracts related to COVID-19, affording the DoD the authority to enter into certain contracts generally exempt from federal procurement laws and regulations.

On April 10, 2020, the Office of Management and Budget (OMB) issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, OMB Memorandum M-20-21 directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. OMB M-20-21 further instructed agencies to consider three core principles: (1) mission achievement, by using data and evidence to meet program objectives; (2) expediency in issuing awards to meet crucial needs; and (3) transparency and accountability to the public.

In FY 2022, there were no additional appropriations or changes to the reprogramming action amounts in the September 30, 2020 Table 29B below. Military Personnel and Operation and Maintenance funds expired on September 30, 2020. Research Development, Testing, and Evaluation funds expired on September 30, 2021. Working Capital and Defense Production Act funds remain available until expended.

Table 29B. FY2020 DoD Appropriations in the CARES Act (P.L. 116-136)

Appropriation *(dollar in millions)*	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
Personnel, Army National Guard	$ 746.6	$ (677.0)	$ 69.6
Military Personnel, Army	-	89.4	89.4
Operations & Maintenance (O&M), Army	160.3	728.1	888.4
O&M, Army National Guard	186.7	(122.1)	64.6
O&M, Army Reserve	48.0	(12.0)	36.0
Research, Development, Test & Evaluation (RDT&E), Army	-	65.3	65.3
Other Procurement, Army	-	61.4	61.4
Department of the Army Total	1,141.6	133.1	1,274.7
Military Personnel, Navy	-	3.0	3.0
Military Personnel, Marine Corps	-	5.4	5.4
Personnel, Marine Corps Reserve	-	0.2	0.2
O&M, Navy	360.3	545.9	906.2
O&M, Navy Reserve	-	6.3	6.3
O&M, Marine Corps	90.0	100.5	190.5
Other Procurement, Navy	-	10.8	10.8
Working Capital Fund, Navy**	475.0	-	475.0
Department of the Navy Total	925.3	672.1	1,597.4
Military Personnel, Air Force	-	106.1	106.1
Personnel, Air Force National Guard	482.1	(424.7)	57.4
Personnel, Air Force Reserve	-	16.7	16.7
O&M, Air Force	155.0	783.4	938.4
O&M, Air Force National Guard	75.8	(58.8)	17.0
O&M, Air Force Reserve	-	19.6	19.6
RDT&E, Air Force	-	60.0	60.0
Other Procurement, Air Force	-	32.1	32.1
Working Capital Fund, Air Force**	475.0	2.8	477.8
Department of the Air Force Total	1,187.9	537.2	1,725.1
Defense Health Program	3,806.1	(1,302.7)	2,503.4
Defense Health Program*	1,095.0	-	1,095.0
O&M, Defense-Wide (DW)	827.8	(540.0)	287.8
Defense Production Act Purchases	1,000.0	(100.0)	900.0
Defense Production Act Program Account	-	100.0	100.0
Working Capital Fund, DW (DLA)**	500.0	30.2	530.2
Working Capital Fund, DW (DeCA)	-	34.7	34.7

Appropriation *(dollar in millions)*	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
Overseas Humanitarian, Disaster, and Civic Aid	-	120.3	120.3
Chemical Agents & Munitions Destruction	-	14.9	14.9
Office of the Inspector General	20.0	-	20.0
RDT&E, DW	-	298.1	298.1
Procurement, DW	-	2.1	2.1
Defense-Wide Total	7,248.9	(1,342.4)	5,906.5
TOTAL DoD Appropriations	10,503.7	-	10,503.7
O&M, U.S. Army Corps of Engineers (USACE)	50.0	-	50.0
General Expenses, USACE	20.0	-	20.0
U.S Army Corps of Engineers Total	70.0	-	70.0
TOTAL DoD and USACE Appropriations	$ 10,573.7	$ (0.0)	$ 10,573.7

* Additional Appropriations non-COVID-19 related, Public Law 116-136 section 13002
**Included in the CARES Act, Congress appropriated $1.45 billion for the DWCF as an emergency requirement under Section 251(b)(2)(A)(i)of the Balanced Budget and Emergency Deficit Control Act of 1985 to prevent, position, prepare for, and respond to coronavirus, domestically or internationally. The appropriations were used to position funds to address an anticipated impact on cash liquidity to cover actual costs incurred and expected future costs.

Table 29C. Budgetary Resources for COVID-19 Activity Funded by COVID-19 Disaster Emergency Fund (DEF) Codes

For the period ended September 30 *(dollar in millions)*	2022	2021
Unobligated and unexpired balance, beginning of year	$ 962.8	$ 2,277.1
New budget authority	-	-
Rescissions (-) and other changes (+/-)	-	-
Less: Obligations	(276.5)	(2,002.5)
Less: Expiring funds	(596.5)	85.4
Unobligated and unexpired balance, end of period	89.8	360.0
Outlays, Net (Total)	$ 724.5	$ 3,185.5

DEF Codes applicable to DoD are:
M for Families First Coronavirus Response Act (Public Law 116-27), Emergency
N for Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (Public Law 116-136), Emergency

The accuracy of the COVID-19 reporting by DEF Code is dependent on the financial data from the DoD Components' accounting systems. The Components are unable to fully separate and report the receipt and execution of COVID-19 funding from non-COVID-19 funding. The reported balances disclosed above include adjustments completed in the current year to correct prior year activity and are not yet reconciled to balances reported for DEF Codes M and N in Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS).

Table 29D. Budgetary Resources for Other COVID-19 Activity, Funded by Annual and Permanent Appropriations

For the period ended September 30 *(dollar in millions)*	2022
Unpaid obligations, beginning of year	$ 699.4
New obligations	104.4
Other changes (+/-)	1.2
Less: Outlays	(403.1)
Unpaid obligations, end of period	$ 401.9

Other Information

Disbursements for COVID-19 prevention, preparation and response include:

- Purchase of medical supplies and equipment;
- Payroll/other personnel costs;
- Co-pay/cost share waivers for COVID-19 diagnostic testing and health care related expenses;
- Training, mobilization and preparedness;
- Operations support programs and base support;
- Emergency operations support;
- Restriction of movement measures and quarantine implementation;
- Cost of isolation measures to include stocking Meals, Ready to Eat (MREs), to be served to Soldiers, in lieu of dining facility operations to maintain social distancing;
- Enhancements of IT equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training;
- Purchase of non-medical personal protective equipment;
- Cleaning/disinfecting supplies and contracts;
- Measures to mitigate impacts at recruit training depots;
- Costs incurred to deliver inventory at overseas commissaries;
- Continued operations of Non-appropriated Fund Instrumentalities;
- Administrative costs.

Additionally, for FY 2022, the Department performed reimbursable work on behalf of other Federal agencies who received supplemental funding related COVID-19. The Department entered into a reimbursable agreement with the Department of Health and Human Services (HHS) for the distribution of COVID-19 vaccines to DoD, which is one of sixty-five jurisdictions that received an allocation of the vaccines. The vaccines were received from multiple commercial vendors based on the agreements with HHS. The vaccine quantities are posted to standard distribution systems for purpose of accountability, tracking and distribution.

See Note 7. *Loans Receivable, Net and Loan Guarantee Liabilities* for information related to *Executive Order 13922*, which activity to support the national COVID-19 response.

The impact on the Department's assets, liabilities, costs, revenues, and net position cannot be separately determined, as mechanisms within the financial reporting systems needed to track such transactions through the proprietary accounts generally do not exist. However, given the nature of the COVID-19 transactions, impacts to the Department's balances in the following accounts would be expected, although not easily quantifiable: Fund Balance with Treasury, Accounts Receivable, Inventory, General PP&E, Non-federal and Intragovernmental Accounts Receivable and Payables. In addition, impacts would be expected to the Statement of Net Cost and the Statement of Changes in Net Position.

NOTE 30. SUBSEQUENT EVENTS

As of the date of this report, there are no subsequent events to report. However, FY 2022 financial statements and related notes of the DoD Components listed below were not yet finalized. As a result, these DoD consolidated/combined financial statements were prepared using current draft financial statements of the outstanding DoD Components. If changes that are material to the DoD Agency-wide consolidated/combined financial statements are identified upon the finalization of the outstanding DoD Components financial statements, the Department would revise and re-issue the DoD Agency-wide financial statements. The expected timeframe for these events is December 2022 and January 2023.

- Defense Information Systems Agency, Working Capital Fund (December 2022)
- Office of the Inspector General (January 2023)

NOTE 31. RECLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government (*Financial Report*). The FY 2022 FR will be published by The Bureau of Fiscal Service upon its release.

To prepare the Financial Report, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the Financial Report statements.

The following tables display the relationship between the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances. Certain financial statement lines are presented prior to aggregation of repeated items. The table also displays the details of Dedicated Collections and All Other Funds (funds that are non-dedicated Collections). The following four columns sum across to the Total amount and may be defined as follows:

- Dedicated Collections Combined represents all transactions that involve Funds from Dedicated Collections prior to the elimination of any intra-DoD transactions.
- Dedicated Collections Eliminations reflects identified transactions between the Department's Dedicated Collections.
- All Other Amounts (with Eliminations) includes funds other than Dedicated Collections, presented net of their eliminations.
- Eliminations between Dedicated and All Other reflects intra-DoD transactions between Funds from Dedicated Collections and other funds.

Non-Federal transactions are with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Table 31A. Statement of Net Cost

FY 2022 DoD Statement of Net Cost		Line Items Used to Prepare FY 2022 Government-wide Statement of Net Cost					
Financial Statement Line[1]	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Gross Costs							**Gross Cost**
Gross Costs	$ 987,698.0	1,775.7		985,922.3		$ 987,698.0	Non-federal gross cost
Losses/(Gains) from Actuarial Assumption Changes	526,951.8			526,951.8		526,951.8	Gains/losses from changes in actuarial assumptions
Gross Costs	51.4			51.4		51.4	General PP&E partial impairment loss
Total Non-Federal Gross Cost	$ 1,514,701.2					$ 1,514,701.2	Total Non-Federal Gross Cost
Federal Gross Cost							**Federal Gross Cost**
Gross Costs	18,983.3	14.1		18,969.2		18,983.3	Benefit program costs (RC 26)
Gross Costs	5,136.5	26.7		5,134.6	(24.8)	5,136.5	Imputed costs (RC 25)
Gross Costs	20,671.7	256.3		20,671.2	(255.8)	20,671.7	Buy/sell cost (RC24)
Gross Costs	243.9	37.1		243.9	(37.1)	243.9	Purchase of assets (RC 24)
Gross Costs	62.5			62.5		62.5	Borrowing and other interest expense (RC05)
Gross Costs	8,319.9	3.9		8,316.0		8,319.9	Other expenses (w/o reciprocals) (RC 29)
Total Federal Gross Costs	$ 53,417.8					$53,417.6	Total Federal Gross Costs
Total Gross Costs	$ 1,568,119.0					$ 1,568,119.0	Total Gross Costs
Earned Revenue							**Earned Revenue**
(Less: Earned Revenue)	(47,598.8)	(1,782.4)		(45,816.4)		(47,598.8)	Non-federal earned revenue
Federal Earned Revenue							**Federal Earned Revenue**
(Less: Earned Revenue)	(273.2)			(273.2)		(273.2)	Benefit program revenue (exchange) (RC 26)
(Less: Earned Revenue)	(50,903.6)	(10.0)		(51,149.4)	255.8	(50,903.6)	Buy/sell revenue (exchange) (RC 24)
Gross Costs	(243.9)	(37.2)		(243.9)	37.2	(243.9)	Purchase of assets offset (RC 24)
(Less: Earned Revenue)	(120,266.6)	(21.8)		(120,244.8)		(120,266.6)	Federal securities interest revenue including associated gains and losses (exchange) (RC 03)
(Less: Earned Revenue)	(3.2)			(3.2)		(3.2)	Borrowing and other interest revenue (exchange) (RC 05)
(Less: Earned Revenue)	(51.6)	(51.6)				(51.6)	Collections Transferred in to a TAS Other Than the GF - Exchange (RC 13)
Total Federal Earned Revenue	$ (171,742.1)					$ (171,742.1)	Total Federal Earned Revenue
Department Total Earned Revenue	$ (219,340.9)					$ (219,340.9)	Department Total Earned Revenue
Net Cost of Operations	$ 1,348,778.1					$ 1,348,778.1	**Net Cost of Operations**

[1]The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements. However, the repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost:

Gross Cost	$ 1,040,923.3
Less: Earned Revenue	(219,097.0)
Losses/(Gains) from Actuarial Assumption Changes	526,951.8
	$ 1,348,778.1

Table 31B. Statement of Changes in Net Position

FY 2022 DoD Statement of Changes in Net Position		Line Items Used to Prepare FY 2022 Government-wide Statement of Changes in Net Position					
Financial Statement Line	Amounts	Dedicated Collections Combined (Note 18)	Dedicated Collections Eliminations (Note 18)	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Beginning Balances (Includes Funds from Dedicated Collections)	$ 255,065.9	15,166.4		239,899.5		$ 255,065.9	Net Position, Beginning of Period
Non-Federal Prior-Period Adjustments							**Non-Federal Prior-Period Adjustments**
Changes in accounting principles (+/-)	(4,517.3)			(4,517.3)		(4,517.3)	Changes in accounting principles
Net Position, Beginning of Period - Adjusted	$ 250,548.6					$ 250,548.6	**Net Position, Beginning of Period - Adjusted**
Non-Federal Non-Exchange Revenue							**Non-Federal Non-Exchange Revenue**
Miscellaneous taxes and receipts	336.1	176.3		159.8		336.1	Other taxes and receipts
Donations and forfeitures of cash and cash equivalents	109.6	107.9		1.7		109.6	Other taxes and receipts
Donations and forfeitures of property	0.1			0.1		0.1	Other taxes and receipts
Other	7,631.3	66.7		7,564.6		7,631.3	Other taxes and receipts
Total Non-Federal Non-Exchange Revenue	$ 8,077.1					$ 8,077.1	Total Non-Federal Non-Exchange Revenue
Federal Non-Exchange Revenue							**Federal Non-Exchange Revenue**
Non-exchange revenue (Note 20)	67.4	65.3		2.1		67.4	Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03)
Non-exchange revenue (Note 20)	123.5	123.5				123.5	Other Taxes and Receipts (RC 45)
Non-exchange revenue (Note 20)	1,918.4	1,918.4				1,918.4	Collections Transferred to a TAS Other than the GF of the USG (RC 15)
Other	(7.4)			(7.4)		(7.4)	Accrual of Collections Yet to be Transferred to a TAS Other Than the GF of the USG - Nonexchange (RC 16)
Non-exchange revenue (Note 20)							Accruals for the Entity Amounts to be Collected in a TAS Other Than the GF of the USG - Nonexchange (RC 16)
Total federal non-exchange revenue	$ 2,101.9					$2,101.9	Total Federal Non-Exchange Revenue
Financing sources							**Financing sources**
Appropriations received	925,919.3			925,919.3		925,919.3	Appropriations received as adjusted (rescissions and other adjustments) (RC 41)
Appropriations used	(866,098.3)			(866,098.3)		(866,098.3)	Appropriations used (RC 39)

FY 2022 DoD Statement of Changes in Net Position		Line Items Used to Prepare FY 2022 Government-wide Statement of Changes in Net Position					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined (Note 18)**	**Dedicated Collections Eliminations (Note 18)**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Appropriations used	866,098.3			866,098.3		866,098.3	Appropriations expended (RC 38)
Transfers-in/out without reimbursement		96.9	(96.9)				Appropriation of unavailable special or trust fund receipts transfers-in (RC 07)
Transfers-in/out without reimbursement		(96.9)	96.9				Appropriation of unavailable special or trust fund receipts transfers-out (RC 07)
Transfers-in/out without reimbursement	652.8	3,044.0	(2,954.0)	631.5	(68.7)	652.8	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	(279.9)	(3,064.0)	2,954.0	(238.6)	68.7	(279.9)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08)
Transfers-in/out without reimbursement	20.2	0.1		2,973.9	(2,953.8)	20.2	Expenditure transfers-in of financing sources (RC 09)
Transfers-in/out without reimbursement	(150.5)	(2,953.8)		(150.5)	2,953.8	(150.5)	Expenditure transfers-out of financing sources (RC 09)
Other adjustments (+/-)	(1,232.4)			(1,232.4)		(1,232.4)	Revenue and other financing sources - cancellations (RC 36)
Transfers in/out without reimbursement	(63,445.3)	66.3	(63.9)	(63,290.5)	(157.2)	(63,445.3)	Transfers-in without reimbursement (RC 18)
Transfers in/out without reimbursement	(4,144.0)	(218.7)	63.9	(4,146.4)	157.2	(4,144.0)	Transfers-out without reimbursement (RC 18)
Imputed financing	5,136.5	26.8		5,134.5	(24.8)	5,136.5	Imputed financing sources (RC 25)
Other	(1,199.5)			(1,199.5)		(1,199.5)	Non-entity collections transferred to the GF of the USG (RC 44)
Other	(71.9)			(71.9)		(71.9)	Accrual for non-entity amounts to be collected and transferred to the GF of the USG (RC 48)
Total Financing Sources	$ 861,205.3					$861,205.3	Total Financing Sources
Net Cost of Operations (+/-)	$ (1,348,778.1)					$ (1,348,778.1)	Net Cost of Operations (+/-)
Net Position, End of Period	$ (226,845.2)					$ (226,845.2)	**Net Position, End of Period**

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with SFFAS 42, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, *Standardizing Facility Condition Assessments*. The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- Category 2: Buildings, Structures, and Linear Structures that are Heritage Assets; and
- Category 3: Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.

Table RSI-1. Real Property Deferred Maintenance and Repairs (excluding Military Family Housing)

As of September 30 *(dollar in millions)*	2022		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 1,319,456.6	$ 105,214.9	8%
Category 2	107,146.8	14,668.0	14%
Category 3	62,096.1	7,652.0	12%
Total	$ 1,488,699.5	$ 127,534.9	9%

As of September 30 *(dollar in millions)*	2021		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 1,072,317.1	$ 94,074.5	9%
Category 2	101,365.3	11,051.0	11%
Category 3	51,988.4	10,267.0	20%
Total	$ 1,225,670.8	$ 115,392.5	9%

Table RSI-2. Real Property Deferred Maintenance and Repairs (Military Family Housing only)

As of September 30 *(dollar in millions)*	2022		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 35,137.0	$ 3,156.0	9%
Category 2	1,069.0	291.0	27%
Category 3	2,028.0	319.0	16%
Total	$ 38,234.0	$ 3,766.0	10%

As of September 30 *(dollar in millions)*	2021		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 32,665.0	$ 5,101.0	16%
Category 2	945.0	252.0	27%
Category 3	1,069.0	383.0	36%
Total	$ 34,679.0	$ 5,736.0	17%

Maintenance and Repair Policies

The Department continues migrating to the Sustainment Management System (SMS), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

Table RSI-3. Equipment Deferred Maintenance and Repairs

As of September 30 *(dollar in millions)*	2022	2021
Major Categories		
Aircraft	$ 1,515.7	$ 1,123.4
Automotive Equipment	534.3	134.2
Combat Vehicles	250.0	467.3
Construction Equipment	48.3	0.4
Electronics and Communications Systems	209.3	325.7
Missiles	196.7	181.8
Ships	699.9	190.4
Ordnance Weapons and Munitions	532.2	432.2
Other Items Not Identified Above	496.3	109.8
Total	$ 4,482.7	$ 2,965.2

Maintenance and Repair Policies

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

Significant Changes in Deferred Maintenance and Repair

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems increased by $1.5 billion during FY 2022. The increase was primarily driven by parts constraints, unplanned in-service repair, and increased unit costs related to aircraft as well as workload growth related to ships.

Table RSI-4. Estimated Acreage by Predominate Use - General PP&E Land and Permanent Land Rights

As of September 30, 2022 *(acres in thousands)*	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year*	-	-	-	-
End of Prior Year/Start of Current Year*	-	-	-	-
End of Current Year	2,000	157,131	31,563,819	31,722,950
Held for disposal or exchange				
End of Prior Year*	-	-	-	-
End of Current Year	-	-	59	59

**The Department has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. Due to the timing of the requirement, the Components implemented the new breakout in time for year-end of FY 2022. The Department did not have this breakout available for the start and year-end of FY 2021, but will report it in future fiscal years. Some Components reported consolidated estimated acreage for General PP&E Land and Stewardship Land. As the data and processes for reporting continue to improve, the Department will update the predominant use of its Land accordingly based on information available.*

Table RSI-5. Estimated Acreage by Predominate Use - Stewardship Land and Permanent Land Rights

As of September 30, 2022 *(acres in thousands)*	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Start of Prior Year*	-	-	-	-
End of Prior Year/Start of Current Year*	-	-	-	-
End of Current Year	-	6,000	2,660,131	2,666,131
Held for disposal or exchange				
End of Prior Year*	-	-	-	-
End of Current Year	-	-	1,131	1,131

**The Department has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. Due to the timing of the requirement, the Components implemented the new breakout in time for year-end of FY 2022. The Department did not have this breakout available for the start and year-end of FY 2021, but will report it in future fiscal years. Some Components did not report their respective estimated acreage for Stewardship Land separately. As the data and processes for reporting continue to improve, the Department will update the predominant use of its Land accordingly based on information available.*

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Table RSI-6. Combining Statement of Budgetary Resources (Budgetary)

As of September 30 *(dollar in millions)*	2022							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (Note 21)	$ 5,531.2	$ 65,947.7	$ 29,556.7	$ 22,337.5	$ -	$ 30,603.7	$ 59,790.3	$ 213,767.1
Appropriations (Discretionary and Mandatory)	167,524.8	152,182.3	121,952.2	13,024.1	77,946.4	29,882.6	457,014.8	1,019,527.2
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	81,232.0	81,232.0
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	2,484.7	2,475.00	41,873.00	5,757.00	-	14,528.50	83,204.3	150,322.5
Total Budgetary Resources	175,540.7	220,605.0	193,381.9	41,118.6	77,946.4	75,014.8	681,241.4	1,464,848.8
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	$ 173,477.3	$ 150,191.0	$ 163,032.8	$ 18,211.6	$ 77,946.4	$ 27,458.4	$ 626,838.6	$ 1,237,156.1
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	760.8	66,820.5	28,228.1	21,496.1	-	47,501.6	36,144.5	200,951.6
Exempt from Apportionment, Unexpired Accounts	-	-	0.4	-	-	45.6	3,724.9	3,770.9
Unapportioned, Unexpired Accounts	-	(159.7)	21.1	1.9	-	0.1	799.3	662.7
Unexpired Unobligated Balance, End of Year	760.8	66,660.8	28,249.6	21,498.0	-	47,547.3	40,668.7	205,385.2
Expired Unobligated Balance, End of Year	1,302.6	3,753.2	2,099.5	1,409.0	-	9.1	13,734.1	22,307.5
Unobligated Balance, End of Year (Total)	2,063.4	70,414.0	30,349.1	22,907.0	-	47,556.4	54,402.8	227,692.7
Total Budgetary Resources	$ 175,540.7	$ 220,605.0	$ 193,381.9	$ 41,118.6	$ 77,946.4	$ 75,014.8	$ 681,241.4	$ 1,464,848.8
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	170,207.2	135,479.9	109,398.9	9,450.5	82,706.3	9,641.6	426,066.3	942,950.7
Distributed Offsetting Receipts (-)	-	-	-	-	(148,160.1)	(1,464.7)	(1,767.4)	(151,392.2)
Agency Outlays, Net (Discretionary and Mandatory)	$ 170,207.2	$ 135,479.9	$ 109,398.9	$ 9,450.5	$ (65,453.8)	$ 8,176.9	$ 424,298.9	$ 791,558.5

As of September 30 *(dollar in millions)*	2021							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory) (Note 21)	$ 5,797.8	$ 60,960.7	$ 27,554.6	$ 24,710.8	$ -	$ 33,444.6	$ 58,701.0	$ 211,169.5
Appropriations (Discretionary and Mandatory)	163,025.0	140,389.6	108,511.2	6,806.0	74,192.5	8,654.6	403,564.7	905,143.6
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	74,016.8	74,016.8
Spending Authority from Offsetting Collections								-
(Discretionary and Mandatory)	4,585.9	5,502.5	50,811.5	5,206.9	-	10,939.6	76,661.1	153,707.5
Total Budgetary Resources	$ 173,408.7	$ 206,852.8	$ 186,877.3	$ 36,723.7	$ 74,192.5	$ 53,038.8	$ 612,943.6	$ 1,344,037.4
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	171,207.5	$ 147,259.2	$ 162,149.9	$ 15,473.9	$ 74,192.5	$ 24,461.2	$ 573,884.4	$ 1,168,628.6
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	252.8	56,626.0	22,565.8	20,001.9	-	28,536.5	22,500.4	150,483.4
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	36.3	3,736.6	3,772.9
Unapportioned, Unexpired Accounts	-	(310.2)	178.6	-	-	0.2	458.7	327.3
Unexpired Unobligated Balance, End of Year	252.8	56,315.8	22,744.4	20,001.9	-	28,573.0	26,695.7	154,583.6
Expired Unobligated Balance, End of Year	1,948.4	3,277.8	1,983.0	1,247.9	-	4.6	12,363.5	20,825.2
Unobligated Balance, End of Year (Total)	2,201.2	59,593.6	24,727.4	21,249.8	-	28,577.6	39,059.2	175,408.8
Total Budgetary Resources	$ 173,408.7	$ 206,852.8	$ 186,877.3	$ 36,723.7	$ 74,192.5	$ 53,038.8	$ 612,943.6	$ 1,344,037.4
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	162,735.0	140,703.3	107,998.0	8,859.6	74,250.5	9,295.0	404,836.4	908,677.8
Distributed Offsetting Receipts (-)	-	-	-	-	(121,668.8)	(1,368.5)	(2,160.6)	(125,197.9)
Agency Outlays, Net (Discretionary and Mandatory)	$ 162,735.0	$ 140,703.3	$ 107,998.0	$ 8,859.6	$ (47,418.3)	$ 7,926.5	$ 402,675.8	$ 783,479.9

Table RSI-7. Combining Statement of Budgetary Resources (Non-Budgetary Credit Reform Financing Account)

As of September 30 *(dollar in millions)*	2022 Operations, Readiness & Support	2022 Combined	2021 Operations, Readiness & Support	2021 Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 45.2	$ 45.2	$ 52.0	$ 52.0
Borrowing Authority (Discretionary and Mandatory)	243.6	243.6	624.0	624.0
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	35.1	35.1	53.1	53.1
Total Budgetary Resources	323.9	323.9	729.1	729.1
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	285.4	285.4	683.9	683.9
Unobligated Balance, End of Year:				
Unapportioned, Unexpired Accounts	38.5	38.5	45.2	45.2
Unexpired Unobligated Balance, End of Year	38.5	38.5	45.2	45.2
Unobligated Balance, End of Year (Total)	38.5	38.5	45.2	45.2
Total Budgetary Resources	323.9	323.9	729.1	729.1
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	2.3	2.3	(55.3)	(55.3)
Disbursements, Net (Total) (Mandatory)	$ 2.3	$ 2.3	$ (55.3)	$ (55.3)

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OTHER INFORMATION

Provides other financial and non-financial information that are required by various laws and regulations to be included in the Agency Financial Report.

Previous photo: Soldiers march across the 7th Army Noncommissioned Officer Academy field at Grafenwoehr Training Area, Germany, June 14, 2022. The soldiers graduated from the basic leader course. Photo By: Army Spc. Elizabeth MacPherson

Left photo: Airmen ignite a pyro demonstration to celebrate the 69th year representing the Air Force in Battle Creek, Mich., July 4, 2022. Photo By: Air Force Staff Sgt. Andrew Sarver

BRAVING THE LAST FRONTIER: RECOUNTING THE ITI 1,000-MILE ULTRAMARATHON

U.S. Air Force Maj. Joshua Brown, the 673d Surgical Operations Squadron Surgical Services flight commander, hikes into Nome, Alaska, as he completes the final leg of the Iditarod Trail Invitational 1,000-mile ultramarathon, March 24, 2022. Brown is the first active-duty service member to compete in the ITI 1,000 and partnered with the We Are All Recruiters program to represent the Air Force at tribal villages along the route. Brown placed 3rd out of 13 competitors in his category, finishing the race in 24 days, 21 hours, and 51 minutes. (U.S. Air Force photo by Airman 1st Class Patrick Sullivan)

Read the full story here.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

An M1A2 Abrams fires during the Sullivan Cup at the Army Armor School at Fort Benning, Ga., April 29, 2022. The biennial competition evaluates the performance of the best tank crews from across the Armor Branch, the Marine Corps and international partner militaries. Photo By: Army Spc. Joshua Taeckens

DoD management has a fundamental responsibility to develop and maintain effective internal controls to provide assurance that its programs operate as designed, and federal resources are used efficiently and effectively to achieve the DoD mission.

As discussed in the Management's Discussion and Analysis section, managers throughout the Department are accountable for ensuring effective internal controls in their areas of responsibility. All DoD Components are required to establish and assess internal controls over financial reporting, mission-essential operations, and financial management systems.

Management-identified weaknesses are determined by assessing internal controls, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Federal Financial Management Improvement Act of 1996 (FFMIA), and Office of Management and Budget (OMB) Circular No. A-123, and fall into one of the following categories:

- FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting;
- FMFIA Section 2, Effectiveness of Internal Control over Operations; or
- FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements / FFMIA Section 803(a), Implementation of Federal Financial Management Improvements.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Exhibit 1 lists the 28 material weaknesses in the Department's financial statement reporting as identified by the DoD OIG in the Independent Auditor's Report. The material weaknesses identified by the DoD OIG in the Independent Auditor's Report are consistent with those identified by DoD management, which are primarily identified using the assessable unit categories as defined by the DoD Risk Management and Internal Control program.

Marines assigned to the Marine Fighter Attack Squadron 323, Marine Aircraft Group 11, 3rd Marine Aircraft Wing prepare F/A-18C Hornets to deploy to Poland from Marine Corps Air Station Miramar, Calif., Jun. 6, 2022. VMFA 323 is deployed to Poland to provide defensive counter-air support to NATO allies and partners. The 3rd MAW remains prepared to uphold the principles of democracy, territorial integrity, sovereignty and respect for the international rules-based order. Photo By: Marine Corps Cpl. Levi Voss

Exhibit 1. Summary of Financial Statement Audit

Audit Opinion: Disclaimer
Restatement: Yes

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Systems Modernization[1 and 14]	1				1
Configuration Management and Security Management[1]	1				1
Access Controls[1]	1				1
Segregation of Duties[1]	1				1
Interface Controls[1]	0	1			1
Universe of Transactions[2]	1				1
Reporting Entity[2]	0	1			1
DoD Component Level Accounts[2]	0	1			1
Financial Statement Compilation[15]	1			1	0
Fund Balance with Treasury[3]	1				1
Suspense Accounts[15]	1			1	0
Inventory and Stockpile Materials[4]	1				1
Operating Materials and Supplies[5]	1				1
General Property, Plant, and Equipment[6]	1				1
Real Property[7]	1				1
Government Property in the Possession of Contractors[8]	1				1
Joint Strike Fighter Program[9]	1				1
Accounts Payable[10]	1				1
Environmental and Disposal Liabilities[11]	1				1
Contingent Legal Liabilities[2]	1				1
Beginning Balances[2]	1				1
Unsupported Accounting Adjustments[2]	1				1
Intragovernmental Transactions and Intradepartmental Eliminations[12]	1				1
Gross Costs[2]	1				1
Earned Revenue[2]	1				1
Reconciliation of Net Cost of Operations to Outlays[2]	1				1
Budgetary Resources[2]	1				1
Service Organizations[2]	1				1
Component Entity-Level Controls[13 and 14]	1				1
DoD-Wide Oversight and Monitoring[2]	1				1
Component-Level Oversight and Monitoring[14 and 15]	1			1	0
Total Material Weaknesses	28	3		3	28

Exhibit 1 Footnotes

[1] The Financial Management Systems Modernization, Configuration Management and Security Management, Access Controls, Segregation of Duties, and Interface Controls material weaknesses identified by the DoD OIG are included within the FISCAM Compliance and FFMIA Compliance material weaknesses identified by DoD management in Exhibit 4.

[2] The Universe of Transactions, Reporting Entity, DoD Component Level Accounts, Contingent Legal Liabilities, Beginning Balances, Unsupported Accounting Adjustments, Gross Costs, Earned Revenue, Reconciliation of Net Cost of Operations to Outlays, Budgetary Resource, Service Organizations, and DoD-Wide Oversight and Monitoring material weaknesses identified by the DoD OIG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

[3] The Fund Balance with Treasury material weakness identified by the DoD OIG are included within the Fund Balance with Treasury material weakness identified by DoD management in Exhibit 2.

[4] The Inventory and Stockpile Materials material weakness identified by the DoD OIG is included within the Inventory material weakness identified by DoD management in Exhibit 2.

[5] The Operating Materials and Supplies material weakness identified by the DoD OIG is included within the Operating Materials & Supplies material weakness identified by DoD management in Exhibit 2.

[6] The General Property, Plant, and Equipment material weakness identified by the DoD OIG is included within the Equipment Assets material weakness identified by DoD management in Exhibit 2.

[7] The Real Property material weakness identified by the DoD OIG is included within the Real Property Assets material weakness identified by DoD management in Exhibit 2.

[8] The Government Property in the Possession of Contractors material weakness identified by the DoD OIG is included within the Property in the Possession of Contractors material weakness identified by DoD management in Exhibit 2.

[9] The Joint Strike Fighter Program material weakness identified by the DoD OIG is included within the Joint Strike Fighter Program material weakness identified by DoD management in Exhibit 2.

[10] The Accounts Payable material weakness identified by the DoD OIG is included within the Health Care Liabilities and Accounts Payable material weaknesses identified by DoD management in Exhibit 2.

[11] The Environmental and Disposal Liabilities material weakness identified by the DoD OIG is included within the Environmental and Disposal Liabilities material weakness identified by DoD management in Exhibit 2.

[12] The Intragovernmental Transactions and Intradepartmental Eliminations material weakness identified by the DoD OIG is included within the Intragovernmental Transactions material weakness identified by DoD management in Exhibit 2.

[13] The Component Entity-Level Controls material weakness identified by the DoD OIG is included within the Entity Level Controls material weakness identified by DoD management in Exhibit 2.

[14] The Financial Management Systems Modernization and Component Entity-Level Controls material weaknesses identified by DoD OIG were formerly called Legacy Systems and Entity Level Controls, respectively, in the DoD Agency Financial Report for FY 2021.

[15] Financial Statement Compilation, Suspense Accounts, and Component-Level Oversight and Monitoring material weaknesses identified by DoD OIG in FY 2021 were consolidated by DoD OIG into the DoD-Wide Oversight and Monitoring, Fund Balance with Treasury, and Component Entity-Level Controls in FY 2022, respectively.

SUMMARY OF MANAGEMENT ASSURANCES

FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting

Exhibit 2 lists the FY 2022 management identified material weaknesses in internal controls over financial reporting, captured by end-to-end process and material weakness area, and reports the changes from the material weaknesses disclosed in the Department's Agency Financial Report (AFR) for FY 2021.

Exhibit 2. FY 2022 Effectiveness of Internal Control over Financial Reporting (FMFIA §2)

Statement of Assurance: No assurance						
End-to-End Process	**Area of Material Weakness**	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Budget-to-Report	Entity Level Controls	1	1			2
	Fund Balance with Treasury	2				2
	Financial Reporting Compilation	6	1			7
Hire-to-Retire	Health Care Liabilities	1				1
Procure to Pay	Accounts Payable [1]	7				7
	Intragovernmental Transactions [2]	3				3
Acquire-to-Retire	Equipment Assets	2				2
	Joint Strike Fighter Program	1				1
	Real Property Assets	1				1
	Environmental and Disposal Liabilities[3]	1				1
	Property in the Possession of Contractors [4]	1				1
	Internal Use Software	1				1
Plan-to-Stock	Inventory	4				4
	Operating Materials & Supplies	4				4
Total Material Weaknesses		35	2			37

[1]*Formerly Contract/Vendor Pay*
[2]*Formerly Reimbursable Work Orders*
[3]*Formerly Environmental Liabilities*
[4]*Formerly Accountability and Management of Property Furnished to Contractors for the Performance of a Contract*

Internal Control over Financial Reporting – Material Weaknesses and Corrective Actions

Entity Level Controls

Department-wide; Identified FY 2019; Correction Target FY 2026

Material Weaknesses

1. Multiple DoD Components do not have sufficient entity level controls (ELC) to provide assurance over the financial reporting process. The lack of sufficient controls at the Component level increases the risk of material misstatement on both the components' financial statements and Agency-wide financial statements.
2. Several components did not sufficiently implement oversight and monitoring activities to identify and resolve deficiencies that could affect their basic financial statements (see note).

Note: Management identified a new material weakness in FY 2022 for lack of oversight and monitoring activities from components to identify and resolve deficiencies in their financial statements.

Corrective Actions

- Continue to implement Department-wide process control narratives (PCNs) that provide baseline guidance for establishing ELCs and refresh existing PCNs as necessary.
- Continue to revise the template developed to capture the key controls in place for monitoring ELCs and compliance with relevant policy.
- Continue to conduct annual evaluations of ELCs to analyze high-risk areas and develop and implement corrective actions.
- Develop a year-over-year comparison view in the OUSD(C) "Risk Management and Internal Controls (RMIC) Dashboard" tool to illustrate and track progress of component testing results over time. Update tool regularly for additional capabilities to facilitate the monitoring actions for PCNs, template revisions, and annual evaluations of ELCs.
- Develop and issue an Agency-wide Corrective Action Plan (CAP) policy instructing components to enhance their root cause analysis in order to address deficiencies.

Fund Balance with Treasury

Department-wide; Identified FY 2005; Correction Target FY 2025 (see note)

Material Weaknesses

1. The Department does not have effective processes and controls to support the reconciliation of transactions posted to the Department's Fund Balance with Treasury (FBwT) accounts with the *Department of the Treasury*'s records, timely research and resolve FBwT differences, and provide sufficient and accurate documentation to support FBwT transactions and reconciling items.
2. The Department does not have effective controls to properly attribute suspense account transactions to the appropriate DoD Component, and research and resolve suspense account transactions in accordance with Treasury Financial Manual requirements.

Corrective Actions

- Support beginning balances through research and documentation.
- Coordinate with standard setters for alternate approaches to address beginning balances issues.
- Implement and standardize Advana reconciliations.
- Identify key stakeholders and establish processes to prevent and/or reduce variance inflow and aging
- Enhance internal controls, processes, and systems involved in FBwT reporting.

Note: The Correction Target date was adjusted from FY 2022 to FY 2025. The change in Correction Target is due to additional time needed to address ineffective processes and controls to perform reconciliations and prevent or resolve existing variances.

Financial Reporting Compilation

Department-wide; Identified FY 2005; Correction Target FY 2028

Material Weaknesses

1. The Budgetary Resources balances presented on the DoD Components' and Agency-wide Statements of Budgetary Resources may not be complete, accurate, or supported.
2. The Department's Reporting Entities have issued inconsistent financial statement presentation styles in prior years (see note).
3. The Department is unable to provide historical data to support completeness and accuracy of beginning balances on the financial statements or reconcile beginning balances to closing balances at the end of the previous reporting period.
4. The Department has ineffective controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems.
5. The Department has inadequate procedures and controls for recording gross cost and earned revenue on the Statement of Net Cost, and providing gross cost and net cost information related to program or organizational outputs and outcomes.
6. The Department is unable to adequately research and resolve variances between budgetary and proprietary data throughout the reporting period and unable to provide details required to resolve this reconciling difference.
7. Service Providers have not designed or implemented reliable controls to provide the reasonable assurance to their DoD Component customers, which decreases the reliability and accuracy of the DoD Component-level financial statements used to compile the Agency-wide financial statements.

Note: In FY 2022, management identified inconsistent financial statement presentation in the components' prior year financial statements.

Corrective Actions

- Maintain and expand monthly reconciliation methodology between budgetary resources and budget execution information to reduce risk of reporting incomplete budgetary information in the financial statements. Substantiate that reported balances comply with applicable laws, standards, and regulations. Continue to develop policies, procedures, and internal controls to support the maintenance and timely retrieval of key supporting documentation. Continue implementing and improving processes related to the use of the Statement of Federal Financial Accounting Standards (SFFAS) 48 and SFFAS 50 "deemed cost" methodologies to establish opening balances for Inventory & Related Property and General Property Plant & Equipment. Develop and implement internal controls to provide assurance that adequate supporting documentation is developed and maintained to substantiate related financial statement balances and line items.
- Continue to update guidelines for reconciliation of net cost to net outlays, standardize reconciliation methodologies across the Department, and provide training that assists in identifying and resolving the unreconciled differences.
- Design and implement monitoring and oversight controls over service providers' financial reporting processes. Work with service providers to conduct risk assessments of internal controls intended to verify proper definition of process ownership and compliance with internal control guidance and accounting standards. Require relevant service providers to post corrections in a timely manner.
- Continue leveraging Statement on Standards for Attestation Engagements (SSAE) No. 18 examinations to monitor the progression of examination findings and develop enhanced financial reporting processes to strengthen controls.
- Retire and replace vulnerable, non-generally accepted accounting principles (GAAP) compliant financial systems; perform reconciliations from feeder systems to the general ledgers; and analyze posting logic within accounting systems to validate that account balances, budgetary to proprietary relationships, and transactions meet United States Standard General Ledger requirements.
- Ingest all accounting and feeder systems within Advana in order to have a complete population of transactional details that impact the financial statements. Revise policies and procedures to account for costs and earned revenue by major program on the SNC, or on the related Note.
- DoD will maintain oversight over Service

Organization progress through regular reviews of updates to the roadmap to confirm the Service Organizations are on target to achieve their milestones.

- OUSD(C) will provide oversight with regard to DoD Components under a stand-alone audit issuing comparative year financial statements in accordance with GAAP.
- Collaborate with components to assist all year-end adjustments are recorded in the financial reporting system within the appropriate reporting window in accordance with GAAP.

Health Care Liabilities

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

1. The Military Treatment Facilities (*MTFs*) do not have compliant, transaction-based accounting systems that apply common and consistent business rules in a manner envisioned by the Department's planned Standard Financial Information Structure. There is insufficient evidence that adequate controls exist and have been implemented to ensure the timeliness and accuracy of medical coding processes at MTFs. The MTF-level data is based on budget execution processes, rather than accrual-based accounting. There is insufficient evidence that appropriate and consistent cutoff of accounting activity occurs at the MTF level.

Corrective Actions

- Complete the implementation of new enterprise resource planning core financial systems across the Department for the relevant components to record accrual-based, patient-level cost accounting data.
- Deploy a new billing solution, deploy an automated coding solution, and develop processes to facilitate the creation of itemized bills for all patients receiving direct care within the *Military Health System*. This electronic health record will assist with the accurate reporting of health care activities and support the establishment of an audit trail.

Accounts Payable

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

1. The Department may not accurately record funding, or it may not be available in the relevant accounting system, at the time the contract is awarded.
2. The Department lacks standard processes for recording contract obligations electronically in financial systems.
3. The Department has insufficient policies governing the recording of accruals related to contracts.
4. The Department is unable to reconcile contract data to financial data, as well as buyer and seller intragovernmental and intergovernmental transactions.
5. The Department's complex operating environment does not enable the matching of contract to accounting data for public transparency (e.g., inability to match the data required by the Digital Accountability and Transparency Act (*DATA Act)*).
6. The Department does not have adequate controls to ensure timely contract closeout and de-obligation of funds, which limits the Department's access to capital.
7. The Department lacks sufficient system interoperability for transactions involving multiple DoD Components.

Corrective Actions

- Publish a DoD Instruction setting policies, procedures, and data standards for recording disbursements and report payments.
- Implement scorecards to track compliance with standard procedures and data compliance for all accounting, entitlement, and contract writing systems. This includes ensuring *Purchase Request Data Standard* and *Procurement Data Standard* correctly carry the Standard Line of Accounting.
- Leverage Wide-Area-Workflow invoice acceptance data to expand and improve the posting of accruals within accounting systems. Implement standard operating procedures for electronic receipt, acceptance, and processing of requests for payment.

- Develop a Procure-to-Pay systems roadmap as part of the broader Financial Management Strategy and Implementation roadmap to ensure system migration plans exist and are implemented to eliminate redundant and antiquated financial management information technology (IT) systems to improve auditability, security, and productivity.
- Design and implement standard processes and controls to ensure contract data can be accurately matched to recorded accounting data for public posting (i.e., DATA Act).
- Develop Department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur to return available funds back to programs in a timely manner.

Intragovernmental Transactions

Department-wide; Identified FY 2011; Correction Target FY 2026

Material Weaknesses

1. The Department is unable to provide sufficient evidence to support the performance of work, receipt of intragovernmental goods and services, and validity of open obligations.
2. The Department is unable to verify the timely and accurate collection of disbursements and validate recorded reimbursable agreements meet the time, purpose, and amount criteria.
3. The Department has an ineffective process to collect, exchange, and reconcile buyer and seller intragovernmental transactions (IGT).

Corrective Actions

- Continue to perform component-level gap analyses on key processes, develop and enter general terms and conditions agreements in the Department of the Treasury's Invoicing system, participate in G-Invoicing training, and develop functionalities in accordance with Federal and DoD data standards.
- Design and implement accounting interfaces in alignment with Treasury's G-Invoicing release timeline.
- Develop and document authorization procedures and controls over obligations. Develop compensating controls to confirm obligations are properly authorized in instances where system authorizations cannot be relied upon.
- Continue to leverage deployed enterprise-wide IGT reconciliation guidance and tools within Advana to support monthly IGT reconciliations.

Equipment Assets

Department-wide; Identified FY 2006; Correction Target FY 2025 (see note)

Material Weaknesses

1. The Department's processes and controls to account for the quantity and value of General Equipment (GE) are not effective.
2. The Department does not have sufficient internal controls and supporting documentation requirements to ensure timely recording, relief, and accuracy of Construction in Progress.

Corrective Actions

- Continue to promote usage of alternative inventory count methods to meet inventory accountability requirements while minimizing the burden of physical site visits.
- Continue to convene quarterly GE working group meetings to highlight policy and guidance gaps impacting the valuation of GE, report on quarterly progress in establishing accountable records, and share lessons learned.
- Leverage property accountability workshops to promote sound accountability practices and provide opportunities for collaboration across Components.
- Develop standard data elements and reporting metrics to standardize equipment accountability.

Note: The Correction Target date was adjusted from FY 2024 to FY 2025 to accommodate the component implementation of corrective actions due to system challenges.

Joint Strike Fighter Program

Department-wide; Identified FY 2019; Correction Target FY 2027 (see note)

Material Weaknesses

1. Joint Strike Fighter (JSF) program property are not accounted for, managed, or recorded in APSR. As a result, JSF property is not properly reflected in the DoD financial statements. Additionally, the Department relies on contractor records to value JSF property.

Corrective Actions

- Develop systems, policies, and procedures to track movement of JSF property during their lifecycle.
- Develop methodology and assign auditable values to program assets.
- Perform physical inventory counts of JSF property and record JSF property in the relevant APSR.
- Document JSF's sustainment process, standardize its internal controls, and remediate any identified gaps.

Note: The Correction Target date was adjusted from FY 2023 to FY 2027 due to additional time needed to develop and implement the requisite policies, procedures, and systems needed to accurately record, track, and report certain JSF assets in the financial statements.

Real Property Assets

Department-wide; Identified FY 2000; Correction Target FY 2025

Material Weaknesses

1. The Department's real property processes, controls, and supporting documentation of real property do not substantiate the acquisition cost, facility construction in progress, and related expenses in the financial statements.

Corrective Actions

- Implement a new enterprise-wide IT solution designed to increase efficiency, improve data accuracy and enhance financial reporting.
- Design new systems that interface general ledger transaction with the Defense Enterprise Accounting and Management Systems (DEAMS).
- Complete remaining verification of Air Force Inventory.
- Publish policies to support the accuracy and completeness for reporting the intradepartmental transfers of real property assets.
- Increase the fidelity of the real property inventory baseline by publishing implementation guidance for consistent reconciliations between APSR to Component-level general ledger systems.

A CH-47 Chinook helicopter flies near Mount Fuji in Japan on its return home journey during 3-2 General Support Aviation Battalion's support to President Biden during his time in Japan. Photo By: Courtesy Photo

Environmental and Disposal Liabilities

Department-wide; Identified FY 2019; Correction Target FY 2026

Material Weaknesses

1. The Department is unable to develop accurate estimates and account for Environmental & Disposal Liabilities (E&DL) in accordance with generally accepted accounting principles due to the following issues:

    » The Department-wide Real Property material weakness does not allow a full and accurate accounting of E&DL related to real property assets, except for the *Defense Environmental Restoration Program*.

    » Existence and completeness issues with General Equipment do not allow a full and accurate accounting of equipment related E&DL.

    » Insufficient formal policy, procedures, and supporting documentation exist for developing and supporting cost estimates.

Corrective Actions

- Continue to convene the E&DL working groups to highlight policy and guidance gaps impacting the completeness, existence, and valuation of E&DL, report on quarterly progress, and share lessons learned.
- Identify methodologies to produce cost estimates consistently between Components, to include standardizing process around the use of the Department's cost estimating tools.
- Align E&DL policies around Real Property and General Equipment physical inventory guidance to confirm that asset-driven E&DLs are being reported appropriately.
- Monitor implementation of standardized processes around the use of the Department's cost estimating tools.

Property in the Possession of Contractors

Department-wide; Identified FY 2011; Correction Target FY 2026

Material Weaknesses

1. Property in the possession of contractors cannot be consistently identified in the Department's APSRs and general ledger systems. As a result, the Department's financial and accountability records are at risk of misstatement.

Corrective Actions

- Develop and implement policy that supports reporting and accountability requirements for the financial reporting of property in the possession of contractors.
- Develop and implement data standards and automated solutions for identifying the existence and completeness of property in the possession of contractors.
- Continue to manage reporting on contract clause compliance and the APSR-to-general ledger transactional reporting, to include using electronic transactions and enterprise tools.

Internal Use Software

Department-wide; Identified FY 2015; Correction Target FY 2025

Material Weaknesses

1. The Department has not properly addressed the management and financial reporting of internal use software (IUS), which is required by SFFAS 10 and must be addressed through updated guidance in the *DoD Financial Management Regulation*.

Corrective Actions

- Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance with GAAP.
- Continue to convene the IUS working group to highlight policy and guidance gaps impacting the accountability and accounting of IUS, report on progress in establishing IUS accountable records and implementing sustainable processes for IUS, and share lessons learned.
- Develop and implement processes and system changes to APSRs to properly capture and sustain accountability and accounting of IUS.
- Evaluate Department-wide compliance with IUS APSR requirements to drive IUS APSR policy changes.
- Validate corrective actions in conjunction with the DoD Chief Information Officer (CIO) through results of standalone audits, Agency-wide audit, Component Statements of Assurance, and information presented by components at the IUS working group.
- Continue to promote use of SFFAS 50 allowances for opening balance of IUS.
- Evaluate planned changes from the Federal Accounting Standards Advisory Board on accounting for software, software licenses, and other intangible assets for potential accountability and accounting policy changes.

Top photo: Marines in a combat marksmanship coach class participate in a combat pistol program at Camp Pendleton, Calif., April 26, 2022. Photo By: Marine Corps Cpl. Anthony Pio

Bottom photo: South Dakota Army National Guardsmen launch reduced-range practice rockets during a live-fire exercise at Camp Ripley, Minn., July 19, 2022. Photo By: Army Spc. Elizabeth Hackbarth

Inventory

Department-wide; Identified FY 2005; Correction Target FY 2028

Material Weaknesses

1. The Department has not implemented adequate policies and procedures over timely reconciliation of subsidiary ledgers and proper application of inventory costing methodologies.
2. The Department has not implemented adequate internal controls to support management's assertion of existence and completeness of Inventory, including preventing users from posting transactions that exceed their approved thresholds, reviewing interface transmission errors, and ensuring transactions are recorded in the proper period for existence, completeness, and valuation.
3. The Department is unable to produce sufficient evidential matter to support inventory transactions, inventory held by third parties, and the complete and accurate identification and correction of erroneous transactions.
4. The Department has insufficient documentation to ensure updated business process controls completely reflect all sub-processes within inventory.

Corrective Actions

- Implement revised policy on comingled assets; address process and system deficiencies associated with reconciliations and valuation methodologies.
- Use the RMIC Program to guide the development and update of internal controls related to inventory accrual, existence, completeness, and valuation. Implement policy changes to support long-term courses of action to mitigate inventory weaknesses.
- Implement and enforce revised Department policy on asset physical accountability requiring internal controls and annual physical inventories. Design and improve reports, management oversight, and procedures to improve effectiveness of management controls.
- Review, improve, and implement enhanced controls in the inventory processes and perform follow up testing for compliance and effectiveness.
- Continue the Inventory working group to highlight policy and guidance gaps impacting the existence, completeness, and valuation of Inventory, report on progress and share lessons learned.

Operating Materials & Supplies

Department-wide; Identified FY 2005; Correction Target FY 2027

Material Weaknesses

1. The Department does not report Operating Materials & Supplies (OM&S) in the Inventory & Related Property line on the Balance Sheet in accordance with SFFAS 3 and SFFAS 48.
2. The Department has not performed an annual assessment of OM&S acquired by components for the purposes of determining appropriate accounting treatment under SFFAS 3, to include existence and completeness.
3. The Department does not have adequate processes and controls for accurately recording munitions inventories.
4. Components do not have sufficient controls and procedures addressing OM&S assets in the possession of third parties, to include service providers and contractors.

Corrective Actions

- Implement an appropriate valuation method for OM&S. Develop and implement procedures to document the process to determine when a decline in value should be considered temporary or permanent. Review all posting logic, re-evaluate existing policies, develop and implement controls to ensure property account posting logic, and establish a methodology to support valuation of OM&S.
- Implement new Department policy requiring inventory counts of OM&S. Conduct inventory counts in accordance with existing policies and supplement as necessary based on the new policy. Develop component-level risk control matrices based on inventory control gap analyses to implement changes to the inventory count process. Report metrics for use in governance meetings on physical inventory counts of OM&S, adjustments, and OM&S in the possession of third parties.

- Develop solutions for a new munition control system that accurately handles physical custody and control issues, properly performs the correct accounting for all munitions, and facilitates the implementation of internal controls to provide improved management oversight. Modernize current systems to better manage and perform munitions control prior to the implementation of the new munition control system solutions.
- Continue efforts to validate existence, completeness, accuracy, and ownership of all assets; monitor interfaces of the different systems; and design, develop, and implement improved reconciliation processes to address OM&S held by service providers and contractors. All contractor inventory control point programs will be identified, and controls developed to maintain OM&S along with policies and procedures for oversight.
- Require future contracts which provide OM&S to third parties to perform existence and completeness reporting, controls, and testing.
- Continue the OM&S working group to analyze processes and integrate remediation efforts among Components to optimize system change efforts and harmonize reporting. This working group will report on progress and share lessons learned across the Department's OM&S community.

TINIAN, Northern Mariana Islands (June 14, 2022) Explosive Ordnance Disposal Technician 2nd Class Orin Olds, assigned to Explosive Ordnance Disposal Mobile Unit (EODMU) 5, Platoon 501 conducts diving operations to neutralize inert training mines in support of Exercise Valiant Shield 2022. Exercises such as Valiant Shield allow the Indo-Pacific Command Joint Forces the opportunity to integrate forces from all branches of service to conduct precise, lethal, and overwhelming multi-axis, multi-domain effects that demonstrate the strength and versatility of the Joint Force and our commitment to a free and open Indo-Pacific. (U.S. Navy photos by Lt. Tyler Baldino)

FMFIA Section 2, Effectiveness of Internal Control over Operations

Exhibit 3 lists the FY 2022 management identified material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2021.

Exhibit 3. FY 2022 Effectiveness of Internal Control over Operations (FMFIA §2)

Statement of Assurance: Modified Assurance					
Assessable Unit	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Acquisition	4		1		3
Comptroller and/or Resource Management	2				2
Communication	1				1
Contract Administration	1	1	1		1
Information Technology	3		1		2
Force Readiness	2	1			3
Manufacturing, Maintenance, and Repair	1				1
Personnel and/or Organizational Management	6	1		3	4
Support Services	3				3
Supply Operations	3				3
Total Material Weaknesses	26	3	3	3	23

Internal Control over Operations – Material Weaknesses and Corrective Actions

Acquisition

Department-wide; Identified FY 2011; Correction Target Reassessed Annually

Material Weaknesses

1. Many DoD acquisition programs do not comply with the Clinger-Cohen Act, *10 USC §2222*, DoD Instruction *(DoDI) 5000.74*, and *DoDI 5000.75*; do not have sufficient management and oversight of IT services and defense business systems; and do not always adequately use existing DoD and *Defense Contract Management Agency* controls for generating, monitoring, and closing contracts.
2. The Department systems engineering in acquisition programs lacks a modular, open-systems approach as required by DoD 5000.01, E1.127; DoDI 5000.02 Operation of the Defense Acquisition System, Defense Acquisition Guide and related functional guidance, in order to optimize total systems' performance and minimize total ownership costs.
3. The Department's pricing for Blank Purchase Agreements for medical items appears to be well above private sector pricing.

Corrective Actions

- Continue to drive progress toward Clinger-Cohen Act compliance through implementation of strong controls, checklists, re-organization of duties, and standardization of position descriptions.
- Implement DoD 5000 series policy mandates, develop further guidance to properly gather and analyze performance metrics, and align acquisition programs with the DoD mission and needs.
- Continue to improve implementation of *Better Buying Power 3.0* and clarify/update *DoDI 5000.02*. Develop additional standard operating procedures and map key business processes to document control activities within each functional area.
- Develop and implement a procedural instruction for acquisition approval and governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review acquisition programs, and improve the monitoring and forecasting of potential issues or risk areas. Hire employees to manage accountable property; establish and implement cyclical inventory count schedule. Enforce accountable property and General Equipment requirements, publish property management manual, and deliver employee training on property management solutions.
- Conduct systems reviews, capability portfolio reviews, configuration steering boards, and cost reviews to identify process inefficiencies and improve the acquisition management process.
- Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule, and performance variances, and to address reported variances.
- Publish updated investment management guidance with business capability review instructions and schedule.
- Address investment management, portfolio management, business architecture, and IT modernization strategies and implementation by DoD Component.
- Establish portfolios, develop capability strategies for each portfolio, and conduct portfolio reviews following implementation.
- Create a committee to monitor progress of internal controls over operations by the Defense Business Council (DBC), and pursue inventory of performance improvement opportunities to accelerate material weaknesses mitigation.

Comptroller and/or Resource Management

Department-wide; Identified FY 2013; Correction Target FY 2028

Material Weaknesses

1. The Department has insufficient Existing controls for defining maintenance requirements and planning, programming, budgeting, and executing depot maintenance and has not been effective in generating required output in accordance with planned schedules and budgets. Multiple audits and studies identified a wide range of control issues that cumulatively create MWs in ship and aviation depot maintenance.
2. DoD Medical Treatment Facilities (MTFs), operating under Uniform Business Office (UBO) guidance issued by the DHA, did not conduct compliance audits, follow up on outpatient claims, or refer outstanding claims to legal for collection when they were open for more than 270 days after initial billing as required by the DoD UBO Manual.

Corrective Actions

- Improve policies for defining, costing, and executing maintenance for depot level to accurately predict both costs and timelines.
- Obtain and review DHA UBO guidance, which outlines the requirement for performing compliance audits. Coordinate with MTF UBO stakeholders to determine the necessary resources and requirements for establishing a compliance audit program. Revise the National Capital Region (NCR) Market Medical Revenue business process narrative to incorporate policies, procedures, and internal controls surrounding the execution of UBO compliance audits as it aligns with Enterprise-level guidance. MTF officials ought to obtain precertification or preauthorization to allow for claim collection.

Communication

Department of the Air Force; Identified FY 2018; Correction Target FY 2023

Material Weaknesses

1. The Department of the Air Force has identified a systemic issue in communication of security information between installations and appropriate external entities.

Corrective Actions

- Identify digital fingerprinting hardware and software solutions to improve archiving, enhance ability to reference/verify fingerprinting, and facilitate transfer of fingerprints between U.S. law enforcement agencies.
- Identify best practices used by U.S. law enforcement entities. Identify partnering solution with Air Force *Office of Special Investigations*.
- Replace the Security Forces Management Information System to allow for increased and timely interagency communications regarding personnel security concerns.
- Identify and implement a long-term software solution for case management.
- Further codify the Department of Air Force Criminal Justice Information Cell with initial operating capability to oversee all criminal data and reporting with the Air Force Office of Special Investigations.

Contract Administration

Department-wide; Identified FY 2009; Correction Target Reassessed Annually

Material Weaknesses

1. The Department must demonstrate its plan to transfer the administration of military treatment facilities to improve efficiency by providing specific details on efforts to eliminate duplicative activities, reduction of headquarters' level military, civilian, and contractor personnel.

Corrective Actions

- Coordinate with Defense Health Agency (DHA) to ensureall operational readiness and installation specific medical functions are considered for transfer.
- Conduct tradeoff analysis, as needed, on potential effect or impact, including but not limited impact on operational costs.
- Develop and implement a plan that details how the Department intends to achieve reductions in headquarters' personnel.

Information Technology

Department-wide; Identified FY 2010; Correction Target Reassessed Annually

Material Weaknesses

1. The Department experiences systemic shortfalls in implementing cybersecurity measures to safeguard the data protection environment. Gaps in cybersecurity access controls (including privileged user authentication, public key infrastructure, and device hardening or encryption) contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability.
2. The Department experiences:
   - » Numerous weaknesses in IT governance (especially in the areas of security management, access controls, segregation of duties, and inconsistent IT policies, procedures, and practices across the Department);
   - » Lack of clear, concise IT security requirements for developed-in-house and acquired systems;
   - » Inability to produce detailed user listings to support periodic recertification of privileged and non-privileged user accounts;
   - » Inability to produce application-level audit logs related to account management and configuration management; and
   - » Lack of periodic review and update of system-level policy documentation. Additionally, the Department did not assess network components for cybersecurity vulnerabilities prior to connection and throughout the component lifecycle.

Corrective Actions

- Strengthen governance and investment certification processes through the Defense Business Council (DBC).
- Expand review and analysis of proposed IT systems to include non-financial management systems.
- Establish processes to ensure stakeholder participation in the cybersecurity scorecard meetings and alignment of component scorecard metrics to audit findings.
- Revise current user system access policy, to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring, and public key infrastructure-based authentication/credentials. Continue development of an enterprise Identity, Credential, and Access Management (ICAM) solution with nine pilot systems to address access control gaps across the Department.
- Coordinate with DoD Components to confirm that current acquisition and IT purchase contracts and policy require the adoption of established user access controls and encryption/hardening standards.
- Reinforce data encryption controls; perform periodic scans for personally identifiable information (PII) and report all findings to designated privacy managers; reinstitute annual PII training; and perform workload studies and associated manning adjustments as necessary.
- Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that meets the minimum password requirements specified in DoDI 8520.03 for stronger authentication.
- Develop, communicate, implement, and continuously monitor entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties.
- Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle.
- Update the Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.
- Clearly identify lines of demarcation between acquisition and provisioning.

Force Readiness

Department-wide; Identified FY 2016; Correction Target Reassessed Annually

Material Weaknesses

1. Multiple MTFs have unfunded sustainment, restoration, and modernization (SRM) requirements that could cause severe injury, death, or moderate to major property damage if not addressed.
2. The Department needs further analysis of the size, readiness, and efficiency of the Medical Force.
3. The Department's nuclear enterprise does not appear to have adequate managerial oversight capabilities, an effective self-assessment program, or the ability to produce useful nuclear inspection reports.

Corrective Actions

- Generate, document, and implement standardized issuances/procedures to address multiple issues at the MTFs upon assuming responsibility for SRM.
- Employ relevant standards to assess required number of active-duty and civilian medical personnel; requirements necessary in order to maintain the skills of active-duty military providers and requirements to increase active-duty and civilian medical personnel's productivity.
- Implement a plan to conduct independent evaluations of supply chain risk management for the nuclear command, control, and communications systems; develop the criteria and methodology that will be used; and identify timeframes for conducting the evaluations.

Manufacturing, Maintenance, and Repair

Department of the Navy; Identified FY 2016; Correction Target FY 2025

Material Weaknesses

1. The Department's policies for defining, costing, and performing ship depot maintenance do not facilitate the accurate prediction of cost and duration.

Corrective Actions

- Identify variances between Execution Year Guidance and the President's Budget to develop mitigations.
- Integrate depot maintenance into routine internal evaluations through the Department Risk Management and Internal Controls program.
- Establish and implement processes and controls to correct over spending of depot maintenance through improved planning of availability, more accurate planning and programming of funding, and improved oversight of the availability of resources.
- Develop and implement policies for planning and executing depot maintenance while correctly identifying costs and duration. Use the President's Budget as the baseline for execution year variance tracking.
- Enhance the maintenance model used for planning, analysis, and budget development.
- Continue quarterly execution reviews pending completion of all scheduled FY 2022 shipyard depot maintenance periods.
- Conduct reviews of depot maintenance through the procure to pay forum or successor forums.
- Draft and implement procedures detailing the budgeting process for aircraft depot maintenance.
- Develop a step-by-step description of the end-to-end budget process, to include supporting documentation.

Personnel and/or Organizational Management

Department-wide; Identified FY 2017; Correction Target FY 2023

Material Weaknesses

1. The Department's average civilian time-to-hire may negatively affect the Department's ability to attract quality candidates to fill open resource needs on a timely basis.
2. The large number of personnel systems, pay systems, and special human resources (HR) authorities and flexibilities used to manage the civilian workforce has caused excessive complexity and variability in HR processes.
3. The Department has not implemented a centralized personnel accountability system and standardized reporting formats to enable consistent management of military personnel HR processes across the geographical Combatant Commands.
4. Higher than anticipated attrition in the Personnel Services Division (PSD) Branches (Processing, Classification, Recruiting and Staffing, Onboarding) has led to a reduction of fully proficient government staff.

Corrective Actions

- Develop and implement Component-level action plans to reduce time-to-hire. Foster Department-wide cooperation and information sharing by using data analytics and DBC governance to improve hiring practices.
- Articulate procedures to simplify, streamline, and standardize Human Resource (HR) processes in order to provide better quality HR hiring services. Pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes.
- Execute ad-hoc initiatives to increase capability in the PSD in order to meet demand.
- Automate manpower systems and personnel systems reconciliation; strengthen internal controls; establish business rules for personnel accountability to avoid double counting of personnel.

Support Services

Department-wide; Identified FY 2017; Correction Target Reassessed Annually

Material Weaknesses

1. The Department does not have sufficient Component/Assessable Unit (AU) internal audit or review of operations.
2. The Department has not achieved adequate progress in improving its business functions in support of the warfighter.
3. There are inconsistencies with the staffing approach to deliver behavioral health, thus impacting the number of appointments required to meet patient demand. Improvements in monitoring referral usage, outcomes, and standardized access/measurement tools are needed.

Corrective Actions

- Develop and approve new Defense Performance Improvement Framework; build a repository of ongoing performance improvement initiatives; develop prioritization and oversight mechanisms to strengthen enterprise capabilities in support of improving business functions.
- Revise transformation guidance (e.g., DoDI 5010.40) to reflect pertinent guidance in GAO Green Book and OMB Circular No. A-123, as well as recent changes in the assignment of the Department's management internal control and risk management functions.

Supply Operations

Department-wide; Identified FY 2011; Correction Target Reassessed Annually

Material Weaknesses

1. Insufficient asset visibility causes the Department to unnecessarily order supplies it already has.
2. Lack of supply condition knowledge inhibits the reorder replacement for damaged supplies.
3. Reductions in the number of suppliers from which the Department can purchase raw materials and finished goods affects the Department's ability to obtain necessary supplies in a timely manner and of sufficient quality.

Corrective Actions

- Improve collection and analysis of supplier threat assessments, implement methods to mitigate risks such as improved hardware and software testing, and enhance processes for approving product and vendor lists.
- Conduct an evaluation of whether DoD Components are conducting appropriate risk assessments, implementing risk mitigation strategies, and using continuous monitoring procedures.
- Implement best practices in cost and contract management with focus on strategic sourcing of sole-source and limited supplier items (e.g., rare metals).
- Identify and remove fraudulent suppliers currently in the supply chain using effective supplier fraud management including improved vetting of supplier claims; strengthened review, verification, and analysis of past and current performance; increased scrutiny of supplier ownership; and research of supplier name changes.
- Address limited distribution networks and capabilities to transport supplies to the right place at the right time, safely, and securely.

Marine Corps drill instructors give commands to a poolee during training at Colonial Heights, Va., April 23, 2022. Photo By: Marine Corps Sgt. Alexa Hernandez

FMFIA Section 4, Conformance with Federal Financial Management Systems Requirements

In accordance with FMFIA section 4, the Department requires that all DoD financial systems comply with federal financial management system requirements. Exhibit 4 lists the number of management identified instances of non-conformance with federal financial management systems requirements and reports the changes from the instances of non-conformance disclosed in the DoD AFR for FY 2021. The *Office of the Under Secretary of Defense (Comptroller)* is responsible for the development of enterprise-level plans to remediate these instances of non-conformance as well as providing oversight over system owner progress.

Exhibit 4. FY 2022 Conformance with Federal Financial Management System Requirements (FMFIA §4)

Statement of Assurance: No Assurance					
Non-Conformance	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Business System Modernization	1				1
FISCAM Compliance	1				1
FFMIA Compliance	1				1
Total Non-conformances	3				3

Airmen participate in a basic military training graduation ceremony at Joint Base San Antonio, Aug. 11, 2022. Photo By: Daniel Cruz, Air Force

FFMIA Section 803(A), Implementation of Federal Financial Management Improvements

Exhibit 5 lists the FY 2022 management identified instances of non-compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level.

Exhibit 5. FY 2022 Compliance with Section 803(A) of the Federal Financial Management Improvements Act (FFMIA)

	Agency	Auditor
Federal Financial Management Systems Requirements	Lack of Compliance Noted	Lack of Compliance Noted
Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

Exercise Shield is an annual Croatian air defense exercise that aims at strengthening the execution of the Air Defense tasks against low and medium altitude moving targets. During the exercise, the 173rd Airborne Brigade and Croatian Air Defense Regiment jointly trained on air defense tactics, techniques and procedures to include air-space control, deconfliction and surveillance as well as targeting and live-fire engagement against flying objects on low- and medium-level altitudes. Photo By: Army Capt. Robyn Haake

Federal Financial Management System Requirements – Non-Conformances and Corrective Actions

Business System Modernization

Department-wide; Identified FY 2001; Correction Target FY 2028

Non-Conformance

1. Delays in achieving business system modernization targets has resulted in degraded DoD business process operations and non-compliance with certain laws (e.g., FFMIA). In addition, the number of applications, hosting locations, interfaces, and other variations in technology create a complex environment where it is difficult to maintain effective IT general and application controls (including information security).

Corrective Actions

- Continue to mature and sustain the integrated Enterprise Financial Management IT Roadmap to identify, prioritize, and track system migrations and retirements that will simplify the Department's business systems environment and increase the security, compliance and auditability of systems. This includes integrating and improving system data quality in authoritative systems, such as the DoD Information Technology Portfolio Repository (DITPR).
- Continue to consolidate DoD general ledger systems by enabling and tracking the Department's migration to enterprise resource planning (ERP) systems and retirement of vulnerable systems to allow for large-scale audit improvements and an enhanced business systems environment.
- Consolidate portfolio management tools and implement tools to improve data quality.
- Develop and implement assessment(s) and a series of monitoring tools to integrate and evolve the method of evaluating and measuring progress towards achieving a more efficient and auditable defense business system environment. Specifically, the Department will continue to mature and develop new metrics that allow for easy visibility of system planned migration and retirement plans, system compliance, system cost, system dependencies, and system health, etc.
- Leverage the notice of findings and recommendations (NFR) database to monitor and report on the status of corrective action plan and NFR closures.
- Leverage existing working groups and governance bodies such as the Defense Business Council, Defense Business Systems Committee, and Information Technology Portfolio working group to influence business system investment decisions and ensure modernization efforts remain on schedule.

FISCAM Compliance

Department-wide, Identified FY 2001; Correction Target FY 2026

Non-Conformance

1. The DoD IT systems environment includes numerous vulnerable systems and core enterprise systems that support the major end-to-end processes and ERP systems. Most of the vulnerable systems were originally designed to support functional purposes (such as human resources, property, and logistics management) rather than the development of auditable financial statement reporting. Many of these systems do not comply with Federal Information System Controls Audit Manual (FISCAM) requirements with regards to entity-level technology controls, application-level general controls, and automated application controls (including security management access, segregation of duties, configuration management, system interfaces, master data, and audit trails).

Corrective Actions

- Continue to implement an enterprise ICAM solution to provide user identity attributes; validate user access rights to protected systems; and facilitate the provision, revocation, and management of user access rights.
- Continue to use the NFR database, leverage technology (e.g., Advana) and the IT Functional Council to track remediation status and identify common solutions to material weaknesses and Department-wide issues.

- Continue to analyze the current IT NFRs and prioritize issues with the most significant audit and security impacts, including access control deficiencies to help safeguard sensitive data from unauthorized access and misuse.
- Align the Risk Management Framework (RMF) with audit results, as the DoD RMF is essential to the Department's ability to self-identify issues and sustain improvements. Summarize the results of security control assessment reviews performed and develop a plan to remediate identified issues.
- Revise and publish an updated Financial Management Overlay with integrated assessment procedures by December 2023.

FFMIA Compliance

Department-wide; Identified FY 2001; Correction Target FY 2028

Non-Conformances

1. The Department's financial systems currently do not provide the capability to record financial transactions in compliance with:
   » Current federal financial management requirements
   » Applicable federal accounting standards
   » USSGL at the transaction level

Corrective Actions

- Migrate three more Components to a common ERP system, the Defense Agency Initiative (DAI) by FY 2025. The DAI application is a FFMIA-compliant commercial-off-the-shelf solution that obtained its sixth consecutive unmodified SSAE No. 18 opinion in FY 2022.
- Continue to deploy FFMIA-compliant ERP solutions throughout the Department. Implement system change requests to enable additional capabilities and standardized processes and information.
- Continue to focus on reducing vulnerable financial management systems, investing in ERP systems, and evolving the role of service providers.
- Deploy a repeatable compliance assessment and monitoring process, working with stakeholders to document objectives, dependencies, and milestones for Corrective Action Plans.
- Deploy automated compliance and portfolio management tools to measure and track FFMIA and Standard Financial Information Structure (SFIS) compliance and retain a clear line of sight on the systems within our Enterprise FM IT Roadmap.
- Implement requirement for non-FFMIA-complaint systems to establish a retirement date or modernization plan with milestones on when they will become FFMIA-compliant.
- Prioritize system compliance NFRs and establish clear guidance to address internal control gaps. This includes ensuring funding is secured for critical system owners to address FFMIA compliance gaps.
- Consolidate portfolio management tools and implement tools to improve data quality (e.g., DITPR and FSD database, Data Quality dashboards, etc.).
- Partner with key stakeholders to identify and prioritize system compliance NFRs and establish clear guidance to address internal controls.
- Leverage technology such as artificial intelligence and robotics process automation to increase the timeliness and accuracy of transactions.

MANAGEMENT CHALLENGES

In accordance with the *Reports Consolidation Act of 2000*, the DoD Office of the Inspector General (*DoD OIG*) prepares an annual statement that summarizes what they consider to be the most serious management and performance challenges facing the Department. This statement is included in a larger DoD OIG report that provides additional background and descriptive information about each challenge as well as an assessment of the Department's progress in addressing the challenges.

The DoD OIG uses the Management Challenges report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2023 rather than FY 2022 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2022 Top DoD Management Challenges as well as similar reports from previous years are available at the *DoD OIG website*.

Top photo: Marines with Marine Corps Forces, Pacific Band perform for a redesignation ceremony at Marine Corps Base Hawaii, June 23, 2022. Photo By: Marine Corps Cpl. Patrick King

Bottom photo: Air Force F-16 Fighting Falcons fly in formation before an aerial refueling over Phoenix, Aug. 6, 2022. Photo By: Air Force Staff Sgt. James Richardson

Inspector General

U.S. Department of Defense

FISCAL YEAR 2023

TOP DOD MANAGEMENT CHALLENGES

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

Mission

To detect and deter fraud, waste, and abuse
in Department of Defense programs and operations;
Promote the economy, efficiency, and effectiveness of the DoD; and
Help ensure ethical conduct throughout the DoD

Vision

Engaged oversight professionals dedicated
to improving the DoD

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For more information about whistleblower protection, please see the inside back cover.

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

October 14, 2022

I am pleased to issue our annual report on the Department's most serious management and performance challenges as required by the Reports Consolidation Act of 2000. As in the past, the DoD Office of Inspector General (DoD OIG) independently identified the challenges based on a number of factors. Those factors included an assessment of the Department's strategic documents, such as the National Defense Strategy and Strategic Management Plan; completed oversight work by the DoD OIG and other agencies; input from DoD officials; congressional hearings and legislation; and issues identified by research institutes and the media. The challenges that we identified are neither exhaustive nor ranked in order of significance or severity.

This year we identified eight challenges, which are generally consistent with the challenges we identified in recent years. In particular, we reintroduced the topic of data as a standalone challenge, this time focusing on the DoD's efforts to accelerate its transformation to a data-centric organization. Although we present the challenges by topic, we examined them through the lens of the DoD's ability to effectively and efficiently execute its mission. Consequently, aspects of a challenge, such as the impact of the COVID-19 pandemic, can apply to multiple topics.

In addition to describing the challenges, we discuss recent actions taken by the DoD to address them; assess the DoD's progress in each challenge area; and cite planned, ongoing, and completed oversight work as applicable. The challenges we identified serve as the organizing principle for our DoD OIG annual oversight plan, to help us focus on audits and evaluations relevant to the DoD's most important performance and management challenges. Both the challenges and the oversight plan are key to the execution of our DoD OIG mission to detect and deter fraud, waste, and abuse in DoD programs and operations; promote the economy, efficiency, and effectiveness of the DoD; and help ensure ethical conduct throughout the DoD.

Particularly as the DoD provides substantial support to Ukraine, we look forward to continuing to conduct independent and objective oversight that helps the DoD execute its mission effectively, operate efficiently, and sustain the trust and confidence of the American people.

Sean W O'Donnell

Sean W. O'Donnell
Acting Inspector General

EXECUTIVE SUMMARY

U.S. Navy Sailors with Naval Beach Unit Seven rehearse for a bilateral amphibious landing at Naval Education, Training, and Doctrine Command in Zambales, Philippines, on October 6, 2022. (U.S. Marine Corps photo)

FY 2023 Top DoD Management Challenges

Executive Summary

The DoD OIG is required by law to report annually the most significant management and performance challenges facing the DoD. The challenges are identified using input from various sources, including oversight work of the DoD OIG and other organizations; congressional hearings and legislation; input from DoD officials; research institute analyses; and issues raised by the media. The DoD's progress to address challenges is also considered. The resulting independent report seeks to inform Congress and the public of the challenges affecting the DoD.

The FY 2023 Top DoD Management Challenges are:

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

The numerical designators for each challenge do not represent order of significance or severity. All identified challenges impact the DoD's ability to optimally execute its mission—to provide the military forces needed to deter war and protect the Nation's security.

CHANGES FROM THE FY 2022 TOP DOD MANAGEMENT CHALLENGES

The foremost differences from last year's report include the reframing of several challenges, integration of four previous standalone challenges to two, and the reintroduction of a standalone challenge on the theme of data. The change in the overall number of challenges from 10 to 8 does not reflect resolution of previously identified challenges.

Last year's challenge on "Maintaining the Advantage in Strategic Competition," and "Assuring Space Dominance, Nuclear Deterrence, and Missile Defense," were combined and reframed to "Building Enduring Advantages for Strategic Competition," which is consistent with the DoD's integrated strategic review approach underpinning the 2022 National Defense Strategy. Similarly, this year's challenge on "Maintaining Superiority Through a Resilient and Modern Defense Industrial Base" reflects the merger of two previous standalone challenges that focused on the supply chain and acquisition.

This year, "Accelerating the Transformation to a Data-Centric Organization," highlights the importance of the DoD Data Strategy, its implementation, and likely barriers. While the focus of the challenge is on efforts to accelerate the transformation, technological dominance and the collection and use of data affect all challenges to some degree. Data and associated systems permeate every aspect of the DoD and are integral to leaders making informed decisions for executing operations and measuring effectiveness of DoD programs, processes, and operations. Technological dominance and effective use of data are paramount for the DoD to succeed against strategic competitors that are investing heavily in new technologies, from major weapon systems to artificial intelligence.

STRATEGIC ENVIRONMENT

The strategic environment is contested and the DoD's ability to ensure its dominance will partly rest on how effectively it can address the challenges we present here. The domestic and global context affects the DoD's ability to accomplish its mission and effectively overcome the threats of today and tomorrow.

Domestically, the DoD faces manpower, financial, and operational pressures. Recruiting and retention of Service members and civilians is hampered by diminishing confidence in the military and a Government-wide decrease in morale and employee engagement.[1] Pandemic-induced uncertainty and economic pressures, further exacerbated by the fallout from Russia's assault on Ukraine, are increasing costs and decreasing purchasing power. The demands on the DoD are increasing as less traditional stressors like the COVID-19 pandemic response and the increased frequency and severity of extreme weather events strain readiness and resilience.

On the global front, the People's Republic of China (PRC) and Russia are leading the charge in hardening an anti-U.S. axis, seeking to disrupt the existing order. Whether through incentives, coercion, misinformation, or outright invasion, they seek to expand their spheres of influence and undermine U.S. standing and capabilities. The PRC's military transformation and sustained and sizable investment in quantum computing, artificial intelligence, and other technologies are likely to change how future wars are fought. Security cooperation is a growing area of competition, especially with nations such as the PRC, and although the United States has a competitive advantage, it is being challenged. It will be essential for the DoD to advance and safeguard its partnerships, particularly in the Indo-Pacific.

[1] "2021 Best Places to Work in the Federal Government Rankings," July 2022.

SUMMARY OF THE FY 2023 MANAGEMENT CHALLENGES

The DoD OIG is presenting eight challenges that it considers the most pressing matters facing the DoD in the upcoming fiscal year.

Management challenge 1, "Building Enduring Advantages for Strategic Competition," addresses factors that impact the DoD's ability to sustain and strengthen deterrence and competitive advantages, particularly against our most consequential strategic competitor, the PRC. Key to this challenge is continuing to build partnerships, balancing ongoing operations with sustainment and modernization, developing and fielding new capabilities at a faster rate.

Management challenge 2, "Strengthening Cyberspace Operations and Securing Systems, Networks, and Data," addresses the DoD's ability to protect and defend communication and computing systems, networks, devices, and data. Key to this challenge is strengthening cyber capabilities, improving cyber hygiene, and modernizing systems and software.

Management challenge 3, "Maintaining Superiority Through a Resilient Defense Industrial Base," focuses on the DoD's and the Defense Industrial Base's interdependence and associated risks. Key to this challenge is effectively using existing acquisition flexibilities, mitigating the effects of providing stockpiled weapons and supplies to Ukraine, and expanding the domestic and partner capacity for critical materials, such as microchips and minerals.

Management challenge 4, "Improving Financial Management and Budgeting," addresses barriers that affect the DoD's ability to attain a clean audit opinion. Key to this challenge is the lack of swift and aggressive changes to accounting and financial management processes, inability to improve internal controls and implement corrective actions in a timely manner, and continued use of legacy systems that do not comply with Federal requirements.

Management challenge 5, "Adapting to Climate Change, Accelerating Resilience, and Protecting the Environment," addresses three lines of effort of the DoD's Climate Adaptation Plan: making climate-informed decisions, training and equipping a climate-ready force, and building resilient installations and infrastructure. Key to this challenge is expanding climate literacy and training, integrating climate effects into operations, and addressing installations' maintenance and improvement backlog.

Management challenge 6, "Protecting the Health and Wellness of Service Members and Their Families," addresses readiness of health care personnel, mental health services, substance misuse, suicide prevention, and women's health. Key to this challenge is the adverse impact of the pandemic on health care providers and beneficiaries, the stigma associated with receiving care for conditions such as mental illness, and inadequate resources for women's health needs including during deployment.

Management challenge 7, "Recruiting and Retaining a Diverse Workforce," focuses on the DoD having the right people today and in the future to execute its mission. Key to this challenge is competition for talent, decreasing interest in military service, smaller pool of qualified candidates, inadequate talent management, and lack of complete and accurate data to measure diversity and inclusion.

Management challenge 8, "Accelerating the Transformation to a Data-Centric Organization," focuses on the importance and challenges of using data to inform DoD decisions and improve operational effectiveness. Key to this challenge is the DoD's ability to overcome cultural barriers, effectively implement its data strategy, and adopt innovation and best practices.

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U.S. Department of Defense

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PAYMENT INTEGRITY INFORMATION ACT REPORTING

The reduction of improper payments and compliance with the Payment Integrity Information Act of 2019 (PIIA) continues to be a top financial management priority for the Department. The Department supports PIIA compliance through the activities of its Payment Integrity program, which comprises 12 separate programs (see Exhibit 6). Collectively, these programs constitute the majority of payments made by the Department annually. This section provides an overview of the FY 2022 results of the Department's Payment Integrity program. See PaymentAccuracy.gov for additional information related to program scorecards, corrective actions, and payment recovery efforts.

Per *OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement*, all programs with annual outlays over $10 million fall into one of two possible classifications: Phase 1 or Phase 2.

Phase 1: Identify Susceptible Programs and Activities with an Improper Payment Risk Assessment.

Programs classified in this phase undergo a risk assessment to determine susceptibility to improper and unknown payments above the statutory threshold[5]. Programs not deemed susceptible to improper and unknown payments above statutory threshold will undergo a risk assessment every three years. Programs deemed susceptible to improper and unknown payments must transition to Phase 2.

Phase 2: Report Improper Payment Estimates for Identified Susceptible Programs with a Statistically Valid Sampling and Estimation Methodology.

Programs classified in this phase will use a statistically valid sampling and estimation methodology to report an annual improper and unknown payments estimate. Phase 2 is not required if the results of Phase 1 indicate that the program is not likely to be susceptible to significant improper and unknown payments.

During FY 2022, the Department classified three programs in Phase 1, and nine in Phase 2.

[5]Programs are considered to be above the statutory threshold if they are reporting an annual improper and unknown payments estimate that is either above $10,000,000 and 1.5% of the program's total annual outlays or above $100,000,000 regardless of the associated percentage of the program's total annual outlays that the estimated improper and unknown payments amount represents.

Exhibit 6. DoD Payment Integrity Programs

- **U.S. Army Corps of Engineers (USACE) Commercial Pay:** Payments disbursed by the USACE to vendors and contractors for goods and services. It also includes Disaster Relief and COVID response funding payments made by USACE.
- **USACE Travel Pay:** Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes Disaster Relief and COVID response funding payments made by USACE.
- **Military Health Benefits** – Administrative: Payments disbursed by Defense Health Agency (DHA) for TRICARE program administrative and other contract costs.

PHASE 1

- **Civilian Pay:** Payments disbursed by Defense Finance and Accounting Service (DFAS) to civilian employees and civil service Mariners for salary, benefits, and other compensation entitlements.
- **Commercial Pay:** Payments disbursed by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief and COVID response funding payments made by the Military Services and DoD Components.
- **Travel Pay:** Payments disbursed by DFAS, the Army, the Navy, the Air Force, and the Marine Corps to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes COVID response funding payments made by the Military Services and DoD Components.
- **Military Health Benefits – Healthcare:** Payments disbursed by DHA to private sector contractors for delivery of health care services to TRICARE eligible beneficiaries. It also includes COVID response funding payments to support health and medical resources priorities.
- **Military Pay - Army:** Payments disbursed by DFAS for the Army to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
- **Military Pay – Navy:** Payments disbursed by DFAS for the Navy to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
- **Military Pay – Air Force:** Payments disbursed by DFAS for the Air Force and Space Force to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
- **Military Pay – Marine Corps:** Payments disbursed by DFAS for the Marine Corps to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
- **Military Retirement:** Payments disbursed by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.

PHASE 2

In accordance with OMB Circular No. A-123, Appendix C, the Department categorizes all program outlays* as one of three payment types: proper payment; improper payment; or unknown payment. A payment is reported as 'proper' if it was made to the right recipient for the right amount, reported as 'improper' if it was made in an incorrect amount or to the wrong recipient, and reported as 'unknown' if the Department was unable to determine whether the payment is proper or improper as a result of insufficient or lack of documentation.

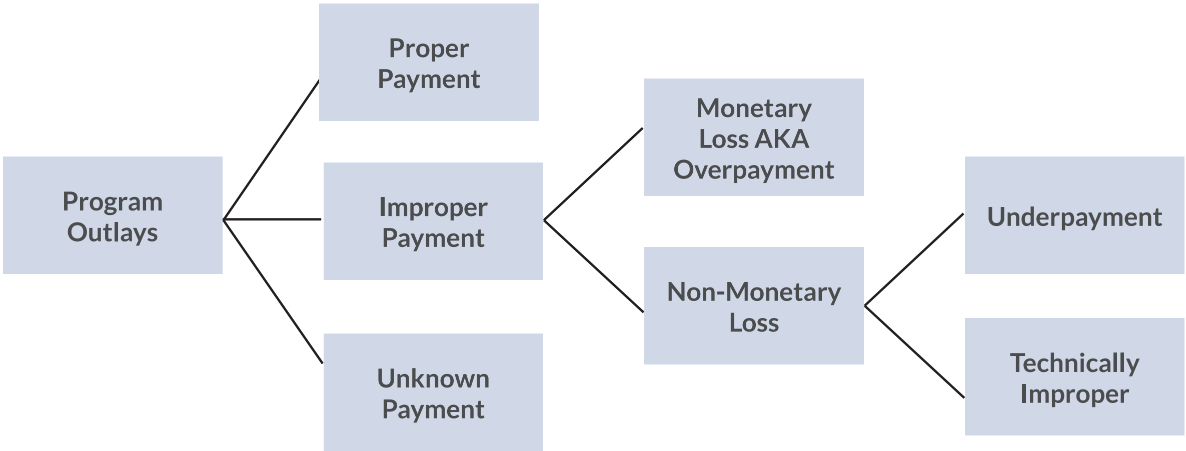
In FY 2022, the Department's estimated improper payments were reported in three separate categories per OMB guidance (see Exhibit 7):

- Overpayments are payments in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount of the overpayment. Overpayments result in monetary or cash losses that should not have been paid and in theory should/could be recovered by the Department.
- Underpayments are payments that are less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount of the underpayment. Underpayments are non-monetary losses to the Department.
- Technically Improper Payments are payments made to an otherwise qualified recipient for the right amount, but the payment failed to meet all regulatory and/or statutory requirements. Technically improper payments are non-monetary losses to the Department.

Additionally, in accordance with OMB memorandum, *"Risk-Based Financial Audits and Reporting Activities in Response to COVID-19,"* the Department continued to apply OMB Circular No. A-123, Appendix C, Requirements for Payment Integrity Improvement, during FY 2022 to the Coronavirus Disease 2019 (COVID-19) response funding received in FY 2020 through the Coronavirus Aid, Relief, and Economic Security *(CARES) Act* and the *Families First Coronavirus Response Act*. The memorandum permitted Payment Integrity programs that received COVID-19 related funding and were already reporting an annual improper payment estimate to incorporate the new funding into their normal sampling process. As such, the Department verified that the financial systems used to account for COVID 19 response funding were included in relevant program sampling plans (e.g., Commercial Pay, Military Health Benefits, DoD Travel Pay).

The estimated improper payment rates reported for all programs were below the PIIA statutory threshold of 10 percent and most of the improper payments identified did not result in monetary losses or incidents of fraud, waste, and abuse.

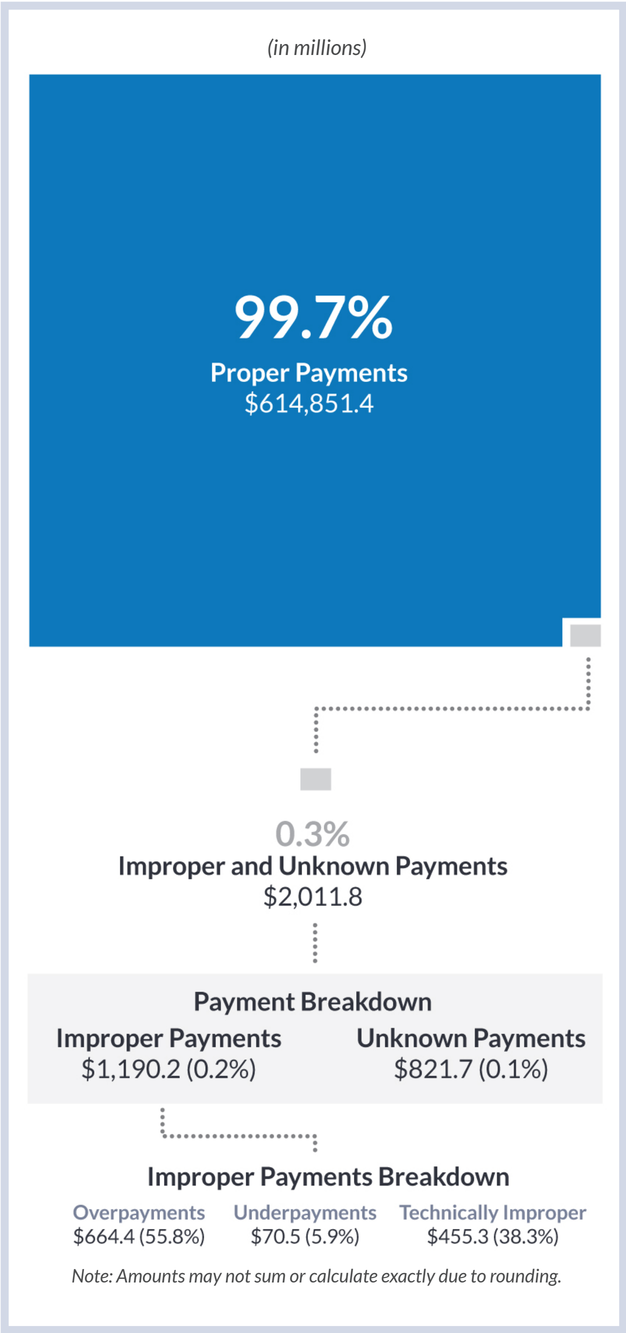
Exhibit 7. OMB Payment Type and Improper Payment Type Categories



Overall, the Department identified $616,863.2 million in payments or outlays[6] subject to testing under the PIIA and estimated a proper payment rate of 99.7 percent ($614,851.4 million), an improper payment rate of approximately 0.2 percent ($1,190.2 million), and an unknown payment rate of approximately 0.1 percent ($821.7 million) (see *Exhibit 8*).

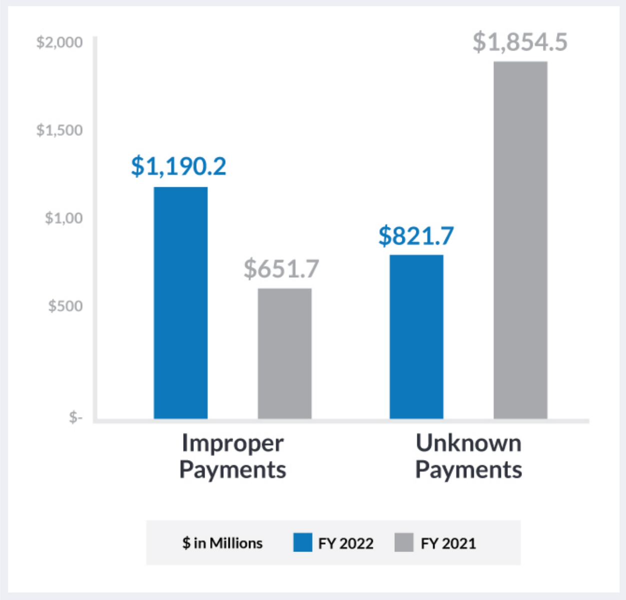
[6]*The Independent Auditor's Report on the DoD FY 2022 and FY 2021 Principal Financial Statements issued by the Office of Inspector General identified a material weakness related to the Universe of Transactions.*

Exhibit 8. Estimated Improper Payments by Payment Type and Improper Payment Category



In FY 2022, the Department reported a total of $2,011.8 million in improper and unknown payments for nine programs. The $1,190.2 million reported in improper payments was approximately an 82.6 percent ($538.5 million) increase from FY 2021 and the $821.7 million reported in unknown payments was approximately a 55.7 percent ($1,032.9 million) decrease from FY 2021 (see *Exhibit 9*).

Exhibit 9. Annual Comparison of Improper and Unknown Payments



The Blue Angels, the Navy's flight demonstration squadron, performs aerial maneuvers over Ellsworth Air Force Base, S.D., May 15, 2022. Photo By: Air Force Tech. Sgt. Luke Olson

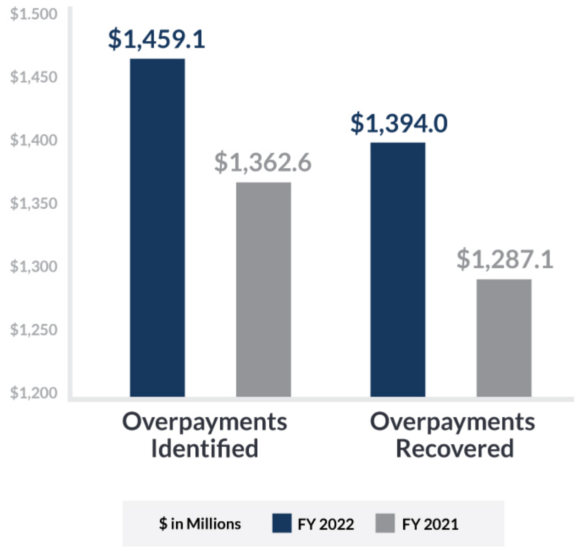
PAYMENT RECOVERY AUDIT AND ACTIVITIES REPORTING

The objective of the Department's Payment Recovery Audit and Activities (PRA) program is to identify, recapture, and reallocate overpayments made by DoD Components in support of the DoD mission while simultaneously demonstrating financial stewardship of resources.

The Department's PRA program consists of a combination of cost-effective internal controls implemented by DoD Components, PIIA-related initiatives, and recovery activities performed by *TRICARE* private sector contractors. The Department's PRA efforts are a summation of actions taken by DoD Components with additional collection activities performed by the Defense Finance and Accounting Service (*DFAS*), Defense Health Agency (*DHA*), and USACE on behalf of the Department.

In FY 2022, the Department's PRA program identified $1,459.1 million in overpayments and recovered $1,394.0 million or 95.5 percent recovery rate. The amount of overpayments identified was approximately a 7.1 percent ($96.5 million) increase from FY 2021 and the amount of overpayments recovered was approximately an 8.3 percent ($106.9 million) increase from FY 2021 (see *Exhibit 10*).

Exhibit 10. Annual Comparison of Overpayments Identified and Recovered



CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*, which amended the *Federal Civil Penalties Inflation Adjustment Act of 1990* (*28 U.S.C. §2461, note*), requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect. The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department. A civil monetary penalty is defined by 28 U.S.C §2461 as any penalty, fine, or sanction for a specific monetary amount assessed or enforced by an agency pursuant to federal law, an administrative proceeding, or a civil action in the federal courts.

The Department's civil monetary penalty adjustments are published as final rules in the *Federal Register* separately for adjustments pertaining to USACE and those related to the remainder of the Department. Exhibit 11 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 87, pages 57145 (87 FR 57145) and 62987 (87 FR 62987).

Army Pfc. Jonathan Castel, an M1 armor crewman assigned to the 1st Battalion, 68th Armor Regiment, 3rd Armored Brigade Combat Team, 4th Infantry Division, mounts an M2 .50-caliber machine gun to the common remotely operated weapon station of an M1A2 Abrams main battle tank for checks prior to upcoming training in Drawsko Pomorskie, Poland, April 21, 2022. The 3/4 ABCT is among the units assigned to V Corps, America's forward deployed corps in Europe that works alongside NATO allies and regional security partners to provide combat-credible forces; execute joint, bilateral and multinational training; and provide command and control for rotational and assigned units in the European theater. Photo By: Army Capt. Tobias Cukale

Exhibit 11. FY 2022 Civil Monetary Penalty Adjustments for Inflation

Statutory Authority	Penalty Name & Description	Year Enacted	Latest Year of Adjustment	Current Penalty (Dollar Amount or Range)	Agency Component	Location for Penalty Update
National Defense Authorization Act for FY 2005, 10 U.S.C §113, note	Unauthorized Activities Directed at or Possession of Sunken Military Craft	2004	2022	$144,887	Department of the Navy	87 FR 57145 (September 19, 2022)
10 U.S.C. §1094(c)(1)	Unlawful Provision of Health Care	1985	2022	$12,722	Defense Health Agency	87 FR 57145 (September 19, 2022)
10 U.S.C. §1102(k)	Wrongful Disclosure -Medical Records	1986	2022	$7,523 (First Offense) $50,152 (Subsequent Offense)	Defense Health Agency	87 FR 57145 (September 19, 2022)
10 U.S.C. § 2674(c)(2)	Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	1990	2022	$2,073	Chief Information Officer	87 FR 57145 (September 19, 2022)
31 U.S.C. §3802(a)(1)	Violation Involving False Claim	1986	2022	$12,537	Office of Inspector General	87 FR 57145 (September 19, 2022)
31 U.S.C. §3802(a)(2)	Violation Involving False Statement	1986	2022	$12,537	Office of Inspector General	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	False claims	1996	2022	$22,426	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(1)	Claims submitted with a false certification of physician license	1996	2022	$22,426	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2)	Claims presented by excluded party	1996	2022	$22,426	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a); 32 CFR 200.210(a)(2); (b)(2)(ii)	Employing or contracting with an excluded individual	1996	2022	$22,426	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(1)	Pattern of claims for medically unnecessary services/supplies	1996	2022	$22,426	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(2)	Ordering or prescribing while excluded	2010	2022	$22,426	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(5)	Known retention of an overpayment	2010	2022	$22,426	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(4)	Making or using a false record or statement that is material to a false or fraudulent claim	2010	2022	$112,131	Defense Health Agency	87 FR 57145 (September 19, 2022)

Statutory Authority	Penalty Name & Description	Year Enacted	Latest Year of Adjustment	Current Penalty (Dollar Amount or Range)	Agency Component	Location for Penalty Update
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(6)	Failure to grant timely access to OIG for audits, investigations, evaluations, or other statutory functions of OIG	2010	2022	$33,640	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a) 32 CFR 200.210(a)(3)	Making false statements, omissions, misrepresentations in an enrollment application	2010	2022	$112,131	Defense Health Agency	87 FR 57145 (September 19, 2022)
42 U.S.C. 1320a-7a(a) 32 CFR 200.310(a)	Unlawfully offering, paying, soliciting, or receiving remuneration to induce or in return for the referral of business in violation of 1128B(b) of the Social Security Act	1996	2022	$112,131	Defense Health Agency	87 FR 57145 (September 19, 2022)
33 U.S.C §555	Violations of the Rivers and Harbors Appropriation Act of 1922	1986	2022	$6,270	U.S. Army Corps of Engineers	87 FR 62987 (October 18, 2022)
Clean Water Act, 33 U.S.C. §1319(g)(2)(A)	Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	1987	2022	$23,990 per violation, with a maximum of $59,974	U.S. Army Corps of Engineers	87 FR 62987 (October 18, 2022)
Clean Water Act, 33 U.S.C. §1344(s)(4)	Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	1987	2022	Maximum of $59,974 per day for each violation	U.S. Army Corps of Engineers	87 FR 62987 (October 18, 2022)
National Fishing Enhancement Act, 33 U.S.C. §2104(e)	Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	1984	2022	Maximum of $26,269 per violation	U.S. Army Corps of Engineers	87 FR 62987 (October 18, 2022)

BIENNIAL REVIEW OF USER FEES

The Department has the authority to establish charges for services and items of value, in accordance with the guidelines that are defined by 31 U.S.C. §9701. User fees are designed to reduce the burden on taxpayers to finance the portions of activities that provide benefits to identifiable users beyond what is normally provided to the public. The Chief Financial Officers Act of 1990 and OMB Circular No. A-25 require federal agencies to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to reflect unanticipated changes in costs or market values, and to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services.

During the FY 2022 review of user fees, the Department of the Navy identified adjustments for fees to achieve full-cost recovery and the Department of the Air Force did not identify any material required adjustments. The Department of the Army is currently implementing a methodology to evaluate its user fees. The Department will continue to review and analyze user fees and report any identified findings in the DoD AFR for FY 2024.

U.S. Air Force F-35A Lightning IIs, F-15E Strike Eagles and Greek air force F-16 Fighting Falcons fly over Naval Support Activity Souda Bay, Greece, July 19, 2022, during Exercise Poseidon's Rage 22. The exercise allowed both countries to bolster readiness and interoperability while demonstrating localized air superiority. Photo By: Air Force Tech. Sgt. Dhruv Gopinath

GRANT PROGRAMS

Title 2, Code of Federal Regulations, section 200.344 (2 CFR 200.344) requires federal agencies that issue grants and cooperative agreements (awards) to close the award once they determine that the required work and applicable administrative actions have been completed. To close the award, the awarding agency collects and reviews the required financial and performance reports from the awardee to ensure the terms and conditions were met (e.g., the appropriate use of awarded funds). Exhibit 12 provides data related to the Department's awards and balances for which the closeout has not yet occurred and the period of performance has elapsed by two or more years.

The Department uses a decentralized grant management process with various DoD Components issuing and administering awards. The DoD Grants Office within the Office of the Under Secretary of Defense for Research and Engineering (OUSD (R&E)) uses data calls to collect the information for Department-wide reporting.

The DoD Components continue to work toward closing out awards as their respective grants and agreements officers now obtain closeout documentation at the time of closing, as well as maintain increased communication with the recipients. Additionally, a contract has been awarded to increase the personnel assisting the grants and agreements officers with closeout activities. Other activities include increased training for grants and agreements officers and widespread usage of a recently developed closeout checklist to streamline the process. Together, these actions have increased the accuracy of the reporting process as well as the data reported.

Challenges preventing the further closeout of awards include increased portfolios for grants and agreements officers, difficulties in communication between different administering offices and systems, unknown points of contact for older awards, and delayed payment requests and performance reports from award recipients.

The Department will continue to pursue additional actions as necessary to progress toward a timelier closeout of awards after the period of performance.

Exhibit 12. Expired DoD Grant and Cooperative Agreement Awards Requiring Closeout

CATEGORY	2-3 Years	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	1,758	1,177	5,926
Number of Grants/Cooperative Agreements with Undisbursed Balances	1,210	709	315
Total Amount of Undisbursed Balances	$262,147,060	$87,938,023	$38,723,066

CLIMATE-RELATED RISK

Climate change will continue to amplify operational demands on the force, degrade installations and infrastructure, increase health risks to our service members, and possibly require modifications to existing and any future equipment the Department may develop or acquire. The Department has identified climate change as a critical national security issue and is committed to integrating climate considerations into its policies, strategies, and investments that enhance operational capability, mission resilience, and operational readiness.

The Department established a Climate Working Group (CWG) which coordinates responses on climate and energy related directives, and tracks their implementation and progress. The CWG is represented by the Chief Sustainability Officer (CSO) who acts as a Senior Advisor to the Secretary on climate and represents the Department on climate and sustainability-related matters in internal and interagency engagements. The DoD CSO has organized a Senior Sustainability Council (SSC), which supports development of an integrated Department-wide Sustainability Plan and leads implementation of departmental sustainability efforts and execution of the Sustainability Plan. Membership of the SSC includes the DoD CSO, the Assistant Secretary of the Army (Installations, Energy and Environment), the Assistant Secretary of the Navy (Energy, Installations and Environment), and the Assistant Secretary of the Air Force (Installations, Environment and Energy). Office of the Assistant Secretary for Energy, Installations, and Environment acts as the Secretariat for the SSC.

Two Executive Orders (EO) direct the Department's action on climate change. *EO 14008, Tackling the Climate Crisis at Home and Abroad*, highlights the fundamental link between climate change and national security and establishes that climate considerations should be an essential element of United States foreign policy and national security. This EO requires federal agencies to perform a climate risk analysis, develop a climate adaptation plan, and produce annual progress reports regarding the actions taken in support of their climate adaptation and resilience. *EO 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability*, seeks to achieve a carbon pollution-free electricity sector by 2035 and net-zero emissions economy-wide by 2050. This EO requires agencies to adjust their sustainability plans to reflect the actions and progress made toward the goals and requirements of this order.

The *DoD Climate Risk Analysis* and the *DoD Climate Adaptation Plan* meet the requirements of EO 14008, and outline the Department's efforts to achieve climate change adaptation and resilience while preserving operational capability and enhancing the natural ecosystems and infrastructure essential to the Department's success.

DoD Sustainability Report and Implementation Plan meets the data and information requirements of EO 14057 and sets forth the Department's planned actions to mitigate climate change and transform how the Department builds, buys, and manages electricity, vehicles, buildings, and other operations to be clean and sustainable.

The following are additional reports with information relevant to climate-related risk that the Department issued or contributed to during FY 2022:

- *DoD Climate Adaptation Plan 2022 Progress Report*
- *Comprehensive Annual Energy Data and Sustainability Performance*

In alignment with the Department-wide climate-related efforts, the Military Departments have developed and published the following plans or strategies to operationalize climate adaptation and mitigation, with actions to enhance operational readiness, resilience, and capabilities of the force:

- *United States Army Climate Strategy*
- *Department of the Navy Climate Action 2030*
- *Department of the Air Force Climate Action Plan*

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APPENDICES

Quick Reference for Acronyms and Abbreviations Used Throughout the Report, Including a Glossary to Define Key Terms

Left: Soldiers assigned to the 7th Infantry Regiment conduct live-fire exercises at the Grafenwoehr Training Area in Germany, May 22, 2022. Photo by Army Maj. Patrick Connelly.

ARMY ASTRONAUT TO JOIN ISS MISSION

Lt. Col. Frank Rubio smiles for the camera while being suited up for EVA training. Rubio is scheduled to be making his first venture into space Sept. 21 when he launches from the Baikonur Cosmodrome to the International Space Station as a NASA astronaut. (Josh Valcarcel – NASA – Johnson Space Center)

Read the full story here.

APPENDIX A: REPORTING ENTITIES

DoD Reporting Entities Designated to Prepare and Issue Financial Statements Annually as Mandated by OMB Bulletin No. 22-01

Department of the Air Force, General Fund	Military Retirement Fund
Department of the Air Force, Working Capital Fund	U.S. Army Corps of Engineers - Civil Works
Department of the Army, General Fund	U.S. Marine Corps, General Fund
Department of the Army, Working Capital Fund	U.S. Navy, General Fund
Department of the Navy, Working Capital Fund	

Other DoD Reporting Entities Consolidated in DoD-wide Financial Statements

Consolidated Defense Health Programs	Defense Logistics Agency National Defense Stockpile Trust Fund
Defense Commissary Agency, General Fund	Defense Logistics Agency, General Fund
Defense Commissary Agency, Working Capital Fund	Defense Logistics Agency, Working Capital Fund
Defense Contract Audit Agency	Department of Defense Office of Inspector General
Defense Finance and Accounting Service, Working Capital Fund	DoD Component Level Accounts
Defense Health Agency - Contract Resource Management	DoD Medicare-Eligible Retiree Health Care Fund
Defense Information Systems Agency, General Fund	U.S. Special Operations Command
Defense Information Systems Agency, Working Capital Fund	U.S. Transportation Command

Other Defense Activities - Agency-Wide Component	Other Defense Activities - Director, Operational Test and Evaluation
Burden Sharing Account by Foreign Allies, Defense	Other Defense Activities - Emergency Response Fund, Defense
Chemical Biological Defense Program	Other Defense Activities - Homeowners Assistance Fund, Defense
Other Defense Activities - Defense Acquisition University	Other Defense Activities - Host Nation Support for U.S. Relocation Activities, Defense
Defense Advanced Research Projects Agency	Joint Chiefs of Staff
Defense Contract Management Agency	Medicare - Eligible Retiree Health Care Fund Payment- Pass through Account
Other Defense Activities - Defense Cooperation Account	Other Defense Activities - Military Housing Privatization Initiative
Other Defense Activities - Defense CounterIntelligence and Security Agency, Working Capital Fund	Military Retirement Fund Payment -Pass through Account
Defense Finance and Accounting Service, General Fund	Missile Defense Agency
Defense Gift Fund	Other Defense Activities - Mutually Beneficial Activities, Defense Wide
Other Defense Activities - Defense Human Resources Activity	National Security Education Trust Fund
Defense Media Activity	Other Defense Activities - Office of Local Defense Community Cooperation (formerly office of Economic Adjustment)
Other Defense Activities - Defense Prisoner of War/ Missing In Action Accounting Agency	Other Defense Agencies Working Capital Funds (pass through account)
Defense Security Cooperation Agency	Other TI-97 Funds Provided to the Air Force by the Office of the Secretary of Defense
Defense Technical Information Center	Other TI-97 Funds Provided to the Army by the Office of the Secretary of Defense
Other Defense Activities - Defense Technology Security Administration	Other TI-97 Funds Provided to the Navy by the Office of the Secretary of Defense
Defense Threat Reduction Agency	Other Defense Activities - Support for U.S. Relocation to Guam Activities, Defense
Department of Defense Education Activity	Other Defense Activities - Voluntary Separation Incentive Trust Fund
Other Defense Activities - Department of Defense Education Benefits Fund	Washington Headquarters Services

APPENDIX B: ACRONYMS

A

ADA	Antideficiency Act
AETC	Air Education and Training Command
AFB	Air Force Base
AFR	Agency Financial Report
APG	Agency Priority Goals
APP	Annual Performance Plan
APR	Annual Performance Report
APSR	Accountable Property System of Record
ASD	Assistant Secretary of Defense
AU	Assessable Unit

B

BAH	Basic Allowance for Housing
BRAC	Base Realignment and Closure
BRS	Blended Retirement System

C

CAP	Corrective Action Plan
CARES	Coronavirus Aid, Relief, and Economic Security
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CIO	Chief Information Officer
CJCS	Chairman of the Joint Chiefs of Staff
CMC	Commandant of the Marine Corps
CNGB	Chief of the National Guard Bureau
CNO	Chief of Naval Operations
COLA	Cost of Living Adjustment
COTS	Commercial Off-The-Shelf
CPIM	Consumer Price Index Medical
CSA	Chief of Staff of the Army
CSAF	Chief of Staff of the Air Force
CSO	Chief of Space Operations
CSRS	Civil Service Retirement System

D

DAI	Defense Agencies Initiative
DBC	Defense Business Council
DBS	Defense Business Systems
DEAMS	Defense Enterprise Accounting and Management System
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHP	Defense Health Programs
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DOL	Department of Labor
DON	Department of the Navy
DPA	Defense Production Act
DW	Defense-wide

E

EBF	Education Benefits Fund
EBS	Enterprise Business System
EEBP	Enterprise External Business Portal
ELC	Entity Level Controls
EO	Executive Order
EOU	Excess, Obsolete, and Unserviceable
ERP	Enterprise Resource Planning

F

FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FCI	Facility Condition Index
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employees Health Benefits
FERC	Federal Energy Regulatory Commission
FERS	Federal Employees Retirement System
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFCRA	Families First Coronavirus Response Act
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Centers
FGB	FIAR Governance Board
FHIF	Family Housing Improvement Fund
FIAR	Financial Improvement and Audit Remediation
FISCAM	Federal Information System Controls Audit Manual
FLTCIP	Federal Long Term Care Insurance Program
FM	Financial Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS	Foreign Military Sales
FR	Federal Register, Financial Report of the U.S. Government
FUSRAP	Formerly Utilized Sites Remedial Action Program
FY	Fiscal Year

G

GAAP	Generally accepted accounting principles
GAO	Government Accountability Office
GCSS-A	Global Combat Support System – Army
GE	General Equipment
GF	General Fund
GFEBS	General Fund Enterprise Business System
GFP	Government Furnished Property
GPRA	Government Performace and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System

H

HR	Human Resources

I

ICAM	Identity, Credential, and Access Management
IG	Inspector General
IP	Improper Payments/Improperly Paid
IPA	Independent Public Auditor
IPPS-A	Integrated Personnel Pay System – Army
IRC	Independent Review Commission
IRP	Installation Restoration Program
IT	Information Technology
IUS	Internal Use Software

J

JCP	Joint Chiefs of Staff
JSF	Joint Strike Fighter

L

LAC	Latest Acquisition Cost
LLC	Limited Liability Company
LMP	Logisitics Modernization Program
LP	Limited Partnership

M

MAC	Moving Average Cost
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MHS	Military Health System
MMRP	Military Munitions Response Program
MRF	Military Retirement Fund
MRHB	Military Retirement Health Benefits
MTF	Military Treatment Facilities
MUHIF	Military Unaccompanied Housing Improvement Fund
MWR	Morale, Welfare, and Recreation

N

NAF	Nonappropriated Fund
NAFI	Nonappropriated Fund Instrumentality
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations
NOAA	National Oceanic and Atmospheric Administration
NPV	Net Present Value
NRV	Net Realizable Value

O

OACT	Office of the Actuary
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPEB	Other Post-employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSD	Office of the Secretary of Defense
OTL	Oracle Time and Labor
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)

P

PFAS	Per- and Polyfluoroalkyl Substances
PII	Personally Identifiable Information
PIIA	Payment Integrity Information Act of 2019
PIO	Performance Improvement Officer
PPA	Prompt Payment Act
PPE	Personal Protective Equipment
PRA	Payment Recapture Audit
PRC	The People's Republic of China
PSA	Principal Staff Assistant

R

RACER	Remedial Action Cost Engineering Requirements
RCRA	Resource Conservation and Recovery Act
RMIC	Risk Management and Internal Controls
RSI	Required Supplementary Information

S

SAA	Security Assistance Accounts
SAO	Senior Accountable Official
SARA	Superfund Amendments and Reauthorization Act of 1986
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDP	Savings Deposit Program
SFFAS	Statement of Federal Financial Accounting Standards
SMP	Strategic Management Plan
SNC	Statement of Net Cost
SOA	Statement of Assurance
SSAE	Statement of Standards for Attestation Engagements
STAMIS	Standard Army Management Information Systems

T

TFM	Treasury Financial Manual
TSP	Thrift Savings Plan

U

U.S.	United States
U.S.C.	United States Code
USACE	United States Army Corps of Engineers
USCYBERCOM	United States Cyber Command
USD	Under Secretary of Defense
USFHP	United States Family Health Plan
USSGL	United States Standard General Ledger
USSOCOM	United States Special Operations Command

V

VCJCS	Vice Chairman of the Joint Chiefs of Staff
VSI	Voluntary Separation Incentive

W

WCF	Working Capital Fund

APPENDIX C: DEFINITIONS

Actuarial Adjustment - An adjustment which considers expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays.

Actuarial Accrued Liability - Represents the excess of the present value of future benefits and administrative expenses over the present value of future normal costs for all plan participants and beneficiaries.

ADVANA - The Department's authoritative enterprise data repository and a centralized data and analytics platform that provides DoD users with common business data, decision support analytics, and data tools.

Annual appropriation - Funds appropriated by Congress for a one-year period of availability, also known as a fiscal year, or one-year appropriation. These funds are available for obligation only during the specified fiscal year and expire at the end of the period. Expired funds are not available to incur new obligations but retain their fiscal year identity for five years and remain available for recording, adjusting and liquidating existing obligations and liabilities previously incurred. After five years, expired funds are cancelled (closed), not available for any purpose, and returned to the U.S. Department of the Treasury.

Antideficiency Act - Legislation enacted by Congress and Is codified in Title 31, United States Code, sections 1341(a)(1), 1342, and 1517(a) *(31 U.S.C. §§1341(a)(1)*, 1342, and 1517(a)), which stipulates that fFederal agencies may not obligate or expend funds in excess of the amount available in an appropriation, or fund, or in advance of appropriations; accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation.

Appropriation - A provision of law that authorizes Federal agencies to incur obligations and expend funds for a specified purpose. Appropriations are definite (a specific sum of money) or indefinite (an amount for "such sums as may be necessary"). Congress passes 12 annual appropriation acts, as well as supplemental appropriation acts, each year. These appropriation acts provide budget authority to obligate and expend funds from the U.S. Department of the Treasury for specific purposes.

Assessable Unit - Any organizational, functional, programmatic or other applicable subdivision of an organization that allows for adequate analysis.

Assets - Economic benefits controlled by the Department.

Balance Sheet - Represents an entity's financial position at a specific point in time, and reports economic benefits (Assets); probable future outflows or other sacrifices of resources, as a result of past transactions or events (Liabilities); and the residual amounts (Net Position).

Blended Retirement System (BRS) - A Department of Defense retirement system that was implemented on January 1, 2018. It combines elements of the legacy military retirement system (commonly referred to as the Hi-3 System) with benefits similar to those offered in many civilian 401(k) plans. The opt-in period for the majority of Service members closed December 31, 2018.

Budget Authority - The amount of money available to a federal agency for a specific purpose. The authority to commit to spending federal funds is provided to agencies by law. The amount of budget authority provided can be specific—such as when the Congress provides a set amount for a program or activity—or indefinite.

Budgetary Resources - Include the following: new budget authority, unobligated balances, direct spending authority, and obligation limitations.

Campaigning - Deliberate effort to synchronize activities and investments to aggregate focus and resources to shift conditions in the entity's favor.

Combat Credible - The ability to project power against advanced air defenses, conduct and enable littoral/amphibious operations (i.e., a concept that describes the integrated application of the Department of the Navy and U.S. Marine Corps capabilities to overcome emerging threats within littoral areas that are rapidly expanding in operational depth, complexity, and lethality) in opposed environments, and establish blue-water dominance against highly capable surface, sub-surface, and air threats.

Combatant Commands - United States Commands with a specific geographic area of responsibility are the Northern Command, Southern Command, Central Command, European Command, Africa Command, Indo-Pacific Command, and Space Command. Four additional United States Commands that have transregional responsibilities are the Cyber Command, Special Operations Command, Strategic Command, and Transportation Command.

Contingency/Contingent Liability - An existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm a gain (i.e., acquisition of an asset or reduction of a liability) or a loss (i.e., loss or impairment of an asset or the incurrence of a liability).

Cumulative Results of Operations - The net difference between expenses, losses, and transfers out from the inception of an agency or activity, and financing sources (i.e., appropriations and revenue) and gains from the inception of an agency or activity (whether financed from appropriations, transfers in, revenues, reimbursements, or any combination of the four) to the reporting date (when financial statements are prepared).

DATA Act Broker - As a result of the Digital Accountability and Transparency Act of 2014 (DATA Act), the Department of the Treasury developed the DATA Act Broker application that is used by federal entities to submit financial data and validate it against the latest version of the DATA Act Information Model Schema. This application can be accessed through a portal on MAX.gov.

Defense Working Capital Fund - The Defense Working Capital Fund (DWCF) was established on December 11, 1996. It is a revolving fund using a business-like buyer-and seller approach with a goal of breaking even over the long term. Stabilized rates or prices are generally established each fiscal year and adjusted for sales to customers to include an amount for unfunded civilian retirement and post-retirement health benefits costs.

Department of Defense - Includes the Office of the Secretary of Defense, Joint Chiefs of Staff, DoD Office of the Inspector General, Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components.

Depreciation - The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

Deterrence - Discouraging states from taking unwanted actions, especially military aggression.

Disclaimer of Opinion - In a disclaimer of opinion, the auditor does not express an opinion on the subject matter. A disclaimer of opinion is appropriate when the auditor has not performed an audit sufficient in scope to enable them to express an opinion. This usually occurs when the auditor is not provided with sufficient information to enable them to express an opinion.

Discretionary Appropriation - Money formally approved by Congress and the President during the appropriations process each year. Generally, Congress allocates over half of the discretionary budget towards national defense and the rest to fund the administration of other agencies and programs. These programs range from transportation, education, housing, and social service programs, as well as science and environmental organizations.

DoD Component - Includes the Office of the Secretary of Defense, Military Departments, Joint Chiefs of Staff and the Joint Staff, Combatant Commands, the DoD Office of the Inspector General, Defense Agencies, DoD Field Activities, and all other DoD entities.

Entity Level Controls - Controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. Entity-level controls may include controls related to the entity's risk assessment process, control environment, service organizations, management override, and monitoring.

Environmental and Disposal Liabilities - An expected future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events.

Entity Assets - Those that the Department has authority to use for its operations.

Epidemic - Refers to an increase, often sudden, in the number of cases of a disease above what is normally expected in that population in that area.

European Deterrence Initiative - Enables the United States to enhance the U.S. deterrence posture, increase the readiness and responsiveness of U.S. forces in Europe, support the collective defense and security of NATO allies, and bolster the security and capacity of U.S. allies and partners.

Expired Appropriation - An appropriation or fund account in which the balance is no longer available for incurring new obligations because the time available for incurring such obligations has expired. Funds may still be available for the recording and/or payment (liquidation) of obligations properly incurred.

Fund Balance with Treasury - An asset account that shows the available budget spending authority of federal agencies. Collections and disbursements by agencies increase or decrease the balance in the account.

Geostrategic - The combination of geopolitical (a study of the influence of such factors as geography, economics, and demography on the politics and especially the foreign policy of a state) and strategic factors characterizing a particular geographic region.

General Property, Plant, and Equipment - Any property, plant, and equipment used in providing goods or services which typically has one or more of the following characteristics: it could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but is used to produce goods or services, or to support the mission of the entity, or it is used in business-type activities, or it is used by entities in activities whose costs can be compared to those of other entities performing similar activities.

Hypersonic Weapons - Travel in excess of five times the speed of sound (Mach 5) covering vast distances in minutes. Hard to stop, they fly and nimbly maneuver to avoid detection and dodge defensive countermeasures.

Improper Payment - The Payment Integrity Information Act of 2019 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. The definition also includes any payment that was made to an ineligible recipient; for an ineligible good or service; as a duplicate payment; for goods or services not received; and any payment that does not account for applicable discounts.

Imputed financing - Imputed financing represents the cost paid on behalf of an agency by another federal entity.

Integrated Deterrence - A framework for working across warfighting domains, theaters and the spectrum of conflict, in collaboration with all instruments of national power, as well as with U.S. allies and our partners.

Internal controls - A process, effected by an agency's management and other personnel, designed to provide reasonable assurance that the objectives of the agency are being achieved in the following categories: effectiveness and efficiency of operations including the use of the entity's resources, reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use, and compliance with applicable laws and regulations. Internal controls consist of the control environment, risk assessment, control activities, information and communication, and monitoring. A necessary implication or subset of these objectives is the safeguarding of agency assets against unauthorized acquisition, use, or disposition. Internal controls include processes, effected by an agency's management and other personnel, designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of the agency's asset.

Internal Use Software - Applies to software acquired, internally developed, or modified solely to meet the entity's internal needs.

Intergovernmental Transactions - Goods and services are received from other federal agencies at no cost or at a reduced cost to the providing federal entity.

Intragovernmental Transactions - Business activities conducted between two federal entities, called trading partners.

Intradepartmental Eliminations - Interdepartmental transactions occur when trading partners within the same department engage in business activities—such as the Department of the Army as a seller and the Department of the Navy as a buyer within DOD. As part of the standard process of preparing department-wide financial statements, intradepartmental transaction amounts are eliminated to avoid overstating accounts for DOD.

Inventory - Any tangible personal property that is held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee.

Key Control Activities - Activities that must operate effectively to reduce the risk of material misstatement.

Kinetic Threat - Military action involving active warfare, including lethal force.

Land - Solid part of the surface of the earth. Excluded from the definition of land are the natural resources (that is, depletable resources such as mineral deposits and petroleum, renewable resources such as timber, and the outer-continental shelf resources) related to land.

Liabilities - Probable future outflows or other sacrifices of resources, as a result of past transactions or events.

Linear Structure - A facility whose function requires traversing land (e.g., runway, road, rail line, pipeline, fence, pavement, and electrical distribution line.

Mandatory Appropriation - Type of spending mandated by existing laws. Also known as direct spending. This type of spending includes funding for entitlement programs like Medicare and Social Security and other payments to people, businesses, and state and local governments. Due to authorization laws, the funding for these programs must be allocated for spending each year, hence the term mandatory.

Material Weakness - A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected, on a timely basis.

Materiel - A unique term relating to military force management and includes items such as ships; tanks; self-propelled weapons; aircraft; and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities.

Medical Countermeasures - Medical countermeasures (MCMs), are FDA-regulated products (biologics, drugs, devices) that may be used in the event of a potential public health emergency stemming from a terrorist attack with a biological, chemical, or radiological/nuclear material, or a naturally occurring emerging disease. MCMs can be used to diagnose, prevent, protect from, or treat conditions associated with chemical, biological, radiological, or nuclear (CBRN) threats, or emerging infectious diseases.

Military Departments - Departments of the Army, Navy (Marine Corps is a component), and Air Force (Space Force is a component).

Net Position - Discusses the federal government's financial position (assets minus liabilities) at the end of the current and recent fiscal years, and how the financial position changed during the current fiscal year.

No Year Appropriations - Appropriations available for obligations for an indefinite period of availability without fiscal year limitation. They are available until they are expended.

Nonappropriated Fund Instrumentalities - A nonappropriated fund instrumentality (NAFI) is an entity to which Congress has appropriated no funds, and for which it assumes no financial obligation. NAFIs include military post exchanges and officers clubs.

Non-kinetic Threats - Cyber warfare, information warfare, electronic warfare, command and control warfare, spectrum warfare are only some of the names by which researchers and military experts describe their offensive and defensive non-kinetic actions.

Permanent Indefinite Appropriations - Provided through public law authorizing the Department to retain certain receipts. These appropriations do not specify amounts but are dependent upon the amount of receipts collected. Permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

Prompt Payment Act - Requires federal agencies to pay vendors timely and pay interest penalties when payments are issued past their due dates.

Qualified Opinion - Type of an audit opinion which states that the subject matter is presented fairly with the established criteria in all material respects except for a certain matter. Qualified opinion means that the auditors concluded that there were misstatements or potentially undetected misstatements that were material, but not pervasive to the financial statements. A qualified opinion states that "except for" the effects of the matter to which the qualification relates, the subject matter of the assertion complies with the established criteria.

Reconciliation of Net Cost of Operation to Outlays - The reconciliation of net outlays (reported on the Statement of Budgetary Resources) and net cost (reported on the Statement of Net Cost) clarifies the relationship between budgetary and financial accounting information.

Remediation - The process of improving a situation or correcting a problem.

Reprogramming - A change in the application of funds. The reprogramming could also be a transfer if it involves the movement of funds from one appropriation to another or between legal subdivisions within an appropriation can be found here. A transfer cannot be performed without statutory authority.

Revolving Fund - Funds authorized by specific provisions of law to finance a continuing cycle of business-type operations. Receipts are credited directly to the revolving fund as offsetting collections and are available for expenditure without further action by Congress. They are classified as (a) public enterprise funds where receipts come primarily from sources outside the government and (b) intragovernmental funds where receipts come primarily from other appropriations or funds. These accounts are usually designated as "no-year" accounts, i.e., they are without limitation as to period of availability for outlay. Examples of revolving funds are the House Services and Stationery Revolving Funds.

Security Assistance - A group of programs, authorized under Title 22 authorities, by which the United States provides defense articles, military education and training, and other defense-related services to eligible other governments by grant, loan, credit, cash sales, or lease, in furtherance of national policies and objectives.

Significant Deficiency - 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.

Spending Authority from Offsetting Collections - Budget authority that is financed by payments and repayments authorized by law to be credited to an appropriation or fund account. Offsetting collections consist of advances and reimbursements, refunds, and other income. Agencies may not retain collections unless authorized by a law as per 31 U.S.C. 3302(b).

Standard Financial Information Structure (SFIS) - A comprehensive data structure that supports requirements for budgeting, financial accounting, cost/performance, interoperability, and external reporting needs across the Department of Defense (DoD) enterprise.

Statement of Assurance - Outlines management's assessment of the effectiveness of internal controls over financial reporting, comprising the material weakness areas impeding the completeness and reliability of our performance and financial data, as well as compliance with relevant laws and regulations.

Statement of Budgetary Resources - Reports information on how budgetary resources were made available and their status as of and for the year ended.

Strategic Management Plan (SMP) - Articulates the Secretary of Defense's strategic priorities, consistent with the National Defense Strategy (NDS).

Suspense Accounts - A general ledger account in which amounts are temporarily recorded. The suspense account is used because the appropriate general ledger account could not be determined at the time that the transaction was recorded.

Trust Fund - Are those designated by law as such, whereby receipts are earmarked for spending on specific purposes. The laws establishing trust funds may require balances to be invested, typically in Treasury debt securities. A small number of trust funds are further categorized as trust revolving funds, established to perform business-type operations.

Unexpended Appropriations - Represent amounts of authority at the reporting date that are either unobligated and have not lapsed, rescinded, or withdrawn; or obligated, but not yet expended (e.g., undelivered orders).

Uniform Business Office (UBO) - Mission of the UBO is to optimize allowable health care cost recovery within compliance guidelines in support of the operational and readiness mission of the Military Health System.

United States Government Standard Ledger (USSGL) - A uniform chart of accounts and guidance for standardizing U.S. federal accounting. It is composed of five major sections: (1) chart of accounts, (2) accounts and descriptions, (3) account transactions, (4) SGL attributes, and (5) SGL crosswalks to standard external reports.

Unknown Payment - In accordance with OMB Circular A-123 Appendix C, when an agency is unable to determine whether the payment is proper or improper, as a result of insufficient or lack of documentation, the payment is considered an unknown payment.

Unmodified Audit Opinion - When the auditor concludes that the subject matter of the audit (as of the specified date) is in conformity with established criteria (e.g., GAAP) and that no deficiencies exist. An unmodified audit opinion is often referred to as "unqualified opinion" or a "clean opinion."

Whole-of-Nation Approach - Includes all organizations operating in a conflict area to support peace and stability, to reach common goals, though typically not so far as to achieve an integrated response.

Working Capital Fund - A type of intragovernmental revolving fund that operates as a self-supporting entity that conducts a regular cycle of businesslike activities. These funds function from the fees charged for the services they provide consistent with their statutory authority.

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