U.S. ARMY

FISCAL YEAR 2023 UNITED STATES ARMY ANNUAL FINANCIAL REPORT

A READY ARMY

ACCOMPLISHING ARMY CORE MISSIONS
FOCUSING ON FUNDAMENTALS

A READY

ARMY

ACCOMPLISHING ARMY

CORE MISSIONS

FOCUSING ON **FUNDAMENTALS**

FY 2023 REPORT CONTENTS

“As our people begin to face a new, harsher reality, Army leadership will ensure they have the necessary training and tools to be successful.”

FISCAL YEAR 2023

A READY ARMY

Accomplishing Army Core Missions
Focusing on Fundamentals

U.S. ARMY

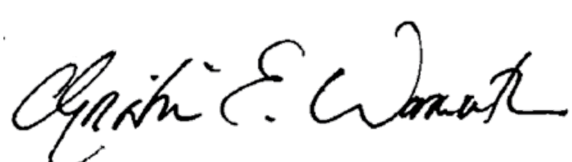
Since the birth of our Nation, Americans have entrusted the United States Army to deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance across the full spectrum of conflict. While the Army's purpose has remained constant, the battlefields across time have proven to be dynamic and complex. In addition to defending against adversarial threats such as pacing challenges in the Indo-Pacific theater and Russia's unjust war in Ukraine, the Army must also navigate the uncertainties of rapid and widespread technological advancement and prepare for the threats of climate change. To navigate these threats, the Army will continue to build upon its three pillars: people, modernization, and readiness. The Army must maintain dominance on the traditional battlefield while reorganizing and innovating to prevail on the battlefields of the future.

The rapid expansion of cyberspace increases opportunities for both the Army and its adversaries to uncover sensitive, tactical information about each other. The Army must aggressively defend against cyber threats while seizing upon the new opportunities of cyberspace. Continuous technological innovation is the key to dominance in a data-driven world. By leveraging developments in artificial intelligence (AI) and data visualization, the Army will reduce the time required to make critical decisions from days to hours. As we continue to build upon our network of allies and partners, our data-driven approach will enhance joint force synchronization between geographic theaters for the greatest effect, which will be vital for our success in a climate-altered world.

The Army is transforming to maintain readiness under the mounting threat of climate change. Army Soldiers are already facing the reality of climate change as they operate in extreme temperatures, fight wildfires, and support hurricane recovery. While the Army cannot stop or reverse the dangerous levels of greenhouse gases already present in the Earth's atmosphere, it can maintain its strategic advantage through deliberate efforts to reduce its own future climate impacts and risks. The Army plans to achieve this by improving resilience and sustainability of installations and supply chains and updating training to allow soldiers to operate at their highest level in extreme weather conditions. As our people begin to face a new, harsher reality, Army leadership will ensure they have the necessary training and tools to be successful.

People are the Army's greatest asset and most powerful weapon. To better support them, we are making significant investments to improve the quality of life of our Soldiers and their Families. These investments include, but are not limited to, the renovation of barracks; improved childcare benefits; and reimbursement of various moving expenses. Our teams perform at their highest level when our people feel safe and accepted amongst each other. With over 200 career choices and incredible educational benefits, Americans of all backgrounds join the Army for the countless opportunities it offers.

The Army's ability to achieve its objectives depends on leadership's access to timely, accurate, and reliable data. During completion of our sixth annual audit of the financial statements, we have worked diligently to improve our data analytical capabilities to perform critical audit and financial activities; prioritize the information technology environment to secure decision-making data; and continue to dedicate our efforts to ultimately achieve a favorable audit opinion. The Fiscal Year 2023 United States Army Annual Financial Report contains descriptions of material weaknesses, which highlight gaps in our financial and operational controls. We will use our audit results and recommendations to continue making meaningful improvements to the financial reporting process in support of the Army's mission and strategic objectives. I am proud of the progress we have made this fiscal year, and I am optimistic about the future state of our financial reporting function.



CHRISTINE E. WORMUTH
Secretary of the Army

“Our leaders at all levels are devoted to developing a skilled, talented, and professional financial management team, empowered by sound business practices, working in collaboration with our stakeholders.”

FISCAL YEAR 2023

A READY ARMY

Accomplishing Army Core Missions
Focusing on Fundamentals

U.S. ARMY

It is my honor to present the Fiscal Year 2023 United States Army Annual Financial Report. This report demonstrates our dedication to fulfilling the Army's mission and aligning with the National Defense strategy of protecting the American people, promoting global security, and defending our democratic values by providing timely, accurate, and reliable information. Global challenges such as Russia's unprovoked invasion of Ukraine continue to rage on, yet the Army exemplifies a steadfast commitment to help defend our allies and interests. The Army stands unwavering in the face of challenges to accomplishing our primary mission of defending the Nation, while remaining remarkable stewards of its fiscal resources.

We recognize that a favorable audit opinion is the cornerstone to financial and operational integrity. To this end, the transparency and accountability of the Army's financial reporting requires active coordination from Army leaders, soldiers, and civilians across the force. We continue to make steadfast progress on our five Army Financial Management strategic priorities: 1) enable the financial management workforce with tools and training; 2) effectively resource the Army; 3) achieve and maintain a favorable audit opinion; 4) improve the Army's business processes and the internal control environment; and 5) leverage data to improve Army operations.

One of my top priorities is to develop a highly capable and cohesive financial management workforce comprised of both military and civilian personnel with the right skills, caliber, and depth in relevant functions to guide the modernization of our systems and processes using advanced analytics. This will equip the joint force with relevant and modernized resources, capabilities, and training necessary to effectively meet future challenges. By leveraging automation, our workforce will have the tools to develop a more analytical focus and foster a culture of innovation that celebrates diversity of thought and talent. In a converged business environment, an optimized workforce with the right tools has the capability to achieve and maintain a favorable audit opinion.

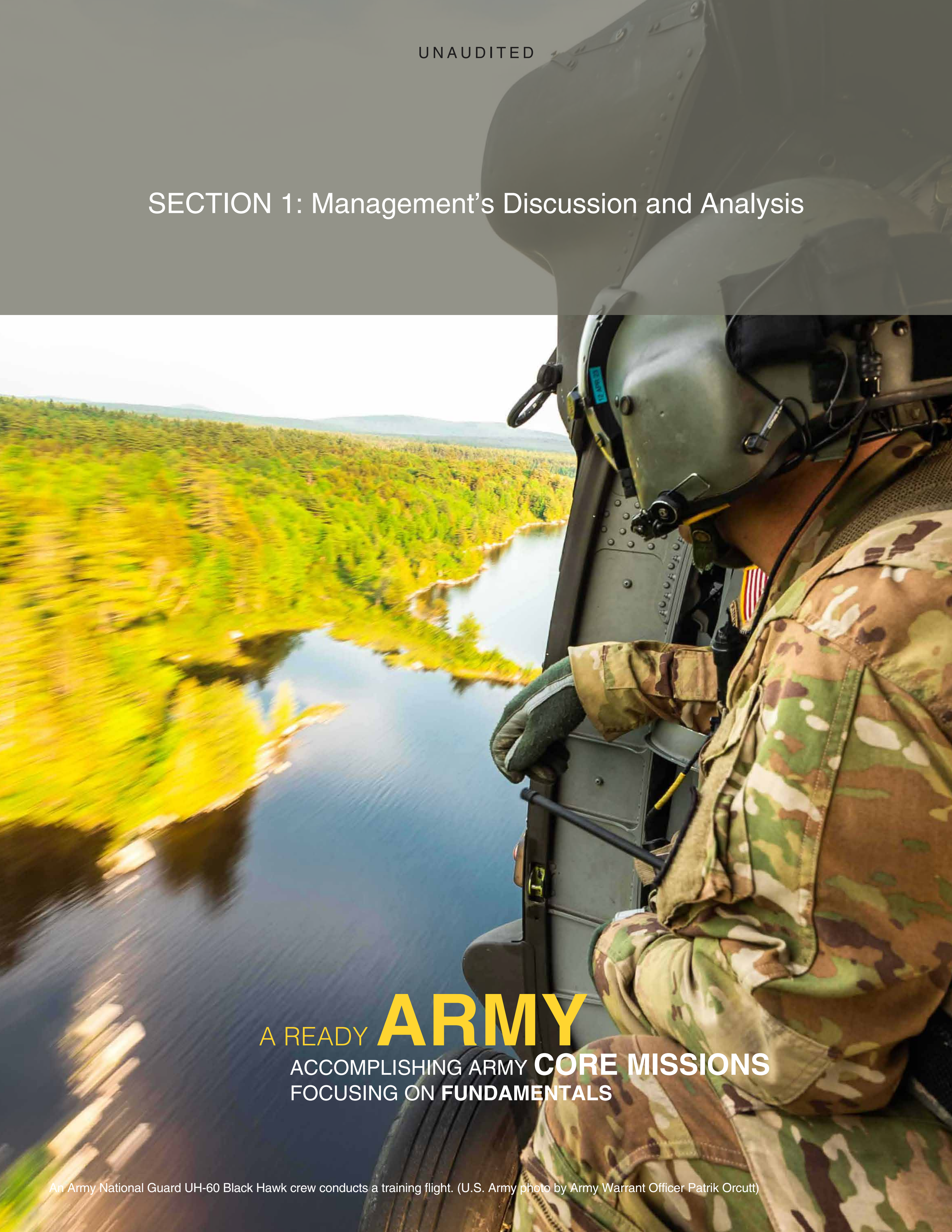
The Fiscal Year 2023 Annual Financial Report summarizes the Army's overall financial information as well as summary-level performance results, including material weaknesses identified by the Army's auditor. We continue to focus on remediating the most material areas, particularly those leading to major operational impacts, improved audit results, and a more robust financial reporting environment.

The ultimate goal for the Army's financial management community is to efficiently allocate resources to ensure the Army's success in defending the nation and emerging victorious in our nation's conflicts. Our leaders at all levels are devoted to developing a skilled, talented, and professional financial management team, empowered by sound business practices, working in collaboration with our stakeholders. We acquire the confidence of our stakeholders through the provision of transparent, auditable, and compliant financial data that is both timely and accurate, enabling effective analysis and informed decision-making.

Caral E. Spangler

CARAL E. SPANGLER
Assistant Secretary of the Army, Financial Management and Comptroller

SECTION 1: Management's Discussion and Analysis



A READY **ARMY**

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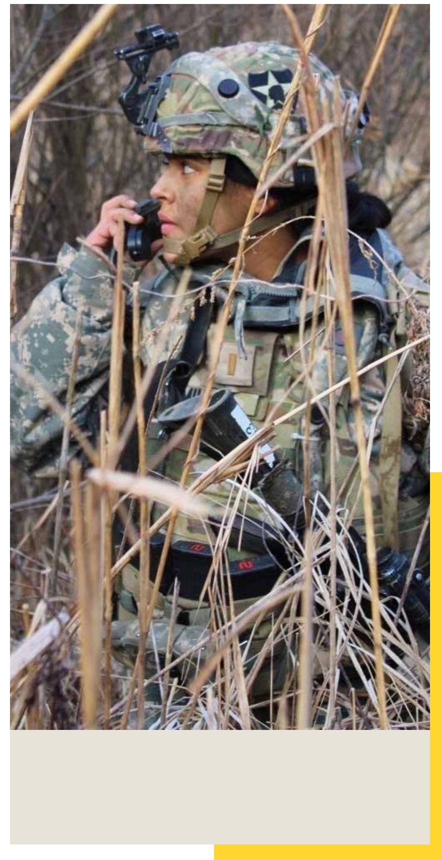
An Army National Guard UH-60 Black Hawk crew conducts a training flight. (U.S. Army photo by Army Warrant Officer Patrik Orcutt)

ARMY GENERAL FUND OVERVIEW



A soldier participates in a simulated company attack on an objective. (U.S. Army photo by Army Maj. Edward Alvarado

The United States (U.S.) Department of the Army (Army) consistently provides trained and ready forces for combat operations, while maintaining a standard of excellence. The Army must be innovative and highly adaptable to sustainably meet the demands of an uncertain future. To maintain our land power dominance, we continue concentrating our efforts on these strategic priorities—readiness, transformation and modernization, reform, and people—to ensure the U.S. Army is always ready, now and in the future. These strategic efforts are coupled with our enduring priorities to take care of our Soldiers, Civilians, and their Families; to re-commit to the Army values and warrior ethos that guide us; and to strengthen relationships with allies and partners.

The many demands on the Nation's resources will put downward pressure on future defense budgets, forcing Army to continuously reassess our spending priorities to meet national objectives. The Army requires predictable resources to further improve readiness, transform and modernize the force, implement effective reforms, and protect our people. With consistent, strategy-based funding over time, the Army can increase capacity, train contingency forces, close critical modernization gaps, and rebuild installation and training infrastructure – all while maintaining excellence in the execution of current operations. The Army aims to achieve the objectives in the defense planning guidance, which is critical to the Army accomplishing assigned missions to a standard expected by the American people.

For fiscal year (FY) 2023, Army General Fund (GF) received $200,294 million in appropriated funds. The Army GF received budgetary resources to offset the impact of and efforts related to the COVID-19 global pandemic in the amount of approximately $1,274 million. The Army's primary uses for *Coronavirus Aid, Relief, and Economic Security (CARES) Act* (P.L. 116-136) funding included:

- Purchase of medical supplies and equipment
- Purchase of non-medical personal protective equipment (PPE)
- Enhancements of information technology (IT) equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training
- Increased cost of conducting initial entry and advanced individual training with appropriate distancing measures
- Increased cleaning and sanitizing contracts
- 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

The Army is a performance-based organization and, as such, is committed to working toward specific measurable goals derived from a defined mission to continually improve operations. The following discussion provides an evaluation of the FY 2023 Army GF performance aligned with the Army's four principal strategic goals: readiness, transformation and modernization, reform, and people.

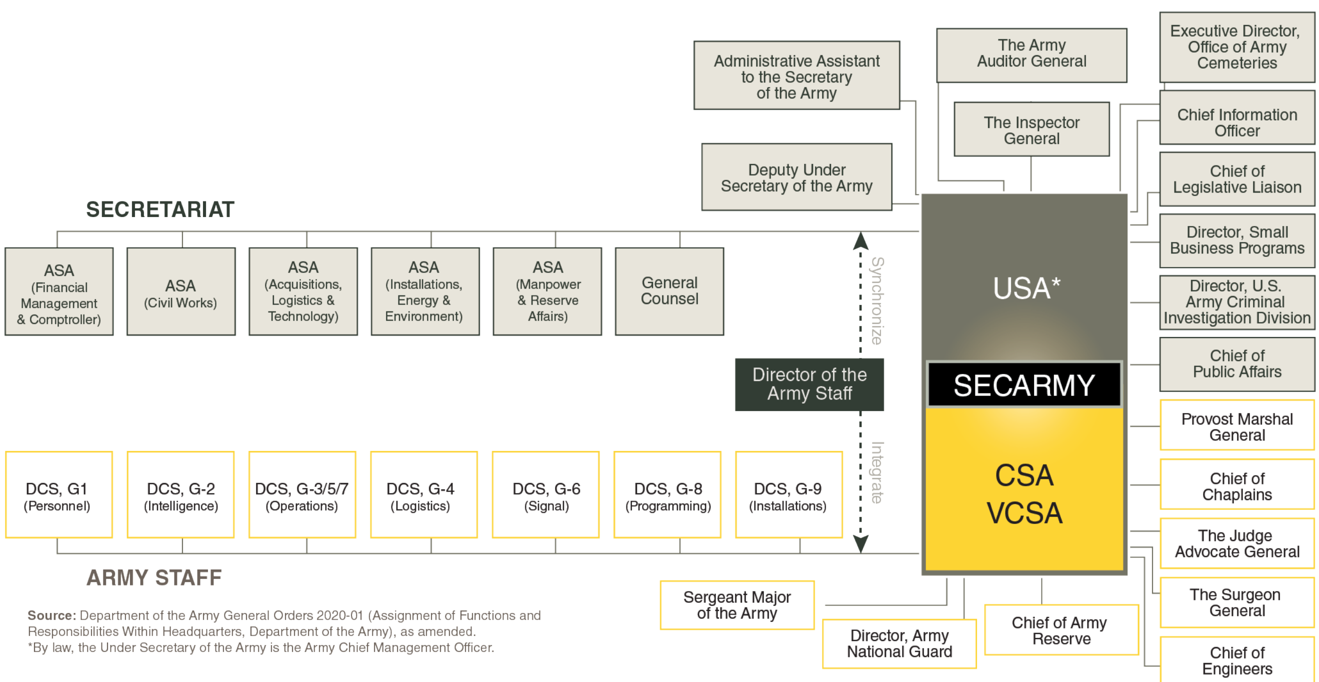
MISSION AND ORGANIZATION OF THE ARMY

The Army mission remains constant: to deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. The Army mission is vital to the Nation because we are a service capable of defeating enemy ground forces and indefinitely seizing and controlling those things an adversary prizes most - its land, resources, and population. The Army uses the GF to accomplish most of its mission. The GF consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Federal Government.

The Army's organization supports and sustains the mobilization, training, and deployment of its Soldiers anywhere in the world. Headquarters, Department of the Army (HQDA) (Figure 1), under the direction of the Secretary of the Army (SECARMY), leads and manages the entire Army. The HQDA Staff is composed of the Secretariat and the Army Staff (ARSTAF). The HQDA Staff:

- Develops policies, plans, and programs.
- Establishes and prioritizes requirements.
- Provides resources to organize, man, train, and equip Soldiers to meet the combatant commands' current and future operational requirements and other needs as defined by the President and the Secretary of Defense.

FIGURE 1. Headquarters, Department of the Army (HQDA)

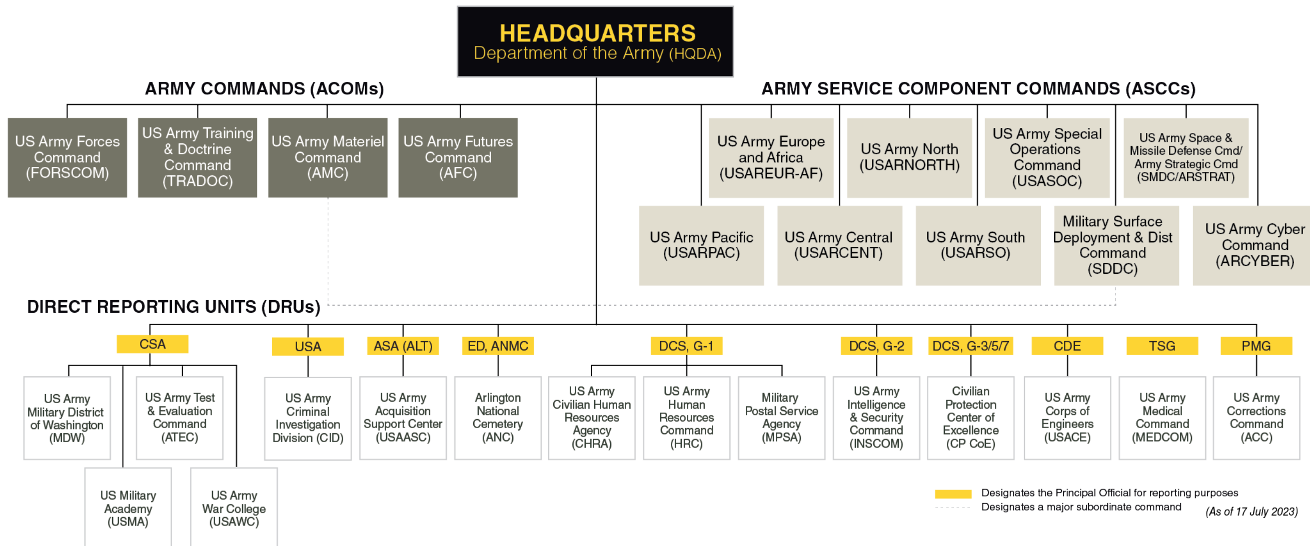


Source: Department of the Army General Orders 2020-01 (Assignment of Functions and Responsibilities Within Headquarters, Department of the Army), as amended.
*By law, the Under Secretary of the Army is the Army Chief Management Officer.

Organizations reporting to HQDA as part of the Army's command structure (Figure 2) include the Army Commands (ACOMs), Army Service Component Commands (ASCCs), and Direct Reporting Units (DRUs). The operational Army consists of numbered armies, corps, divisions, brigades, and battalions that conduct the full range of military operations.

The institutional Army supports the operational Army by providing the infrastructure necessary to man, train, equip, deploy, and ensure the readiness of all Army forces.

FIGURE 2. Army Command Structure



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – GENERAL FUND

Maintaining credible strategic land-power requires that the Army continually assess and refine its readiness, transformation and modernization, reformation, and people; how it operates; manages its human capital; and increases its capabilities. The Army continually builds globally responsive and regionally engaged strategic land forces with a versatile mix of capabilities, formations, and equipment that are mission tailored, scalable, and cost effective. The following sections discuss the Army GF's performance objectives and results as they relate to the Army mission.

Readiness

Strategic Goal 1: *Provide ready and trained forces, ensuring the Army is ready to engage all enemies, foreign and domestic.*

The Army of 2030 must be able to fight and win decisively in a joint, combined, multi-domain environment with our Decisive Action partners while simultaneously competing in multiple theaters. The Army will do this by first developing and delivering leaders and arming them to drive the training and operations process while building on the gains made by foundational training. People are the priority as the Army builds readiness and modernizes the Force. Training must be tough, realistic, iterative, and dynamic to support Multi-Domain Operations. The Army will enable the Joint Force to maneuver and prevail from competition through conflict with a calibrated force posture of multi-domain capabilities that provide overmatch through speed and range at the point of need. Army formations and capabilities will provide the necessary speed, both physical and cognitive, to achieve decision dominance required for a faster-paced, distributed, and complex operating environment. The Multi-Domain Army will set the conditions for the Joint Force to fight and win integrated campaigns necessary to defeat state actors. All training must contribute to accomplishing the mission and achieving the Vision. Field Manual 7-0, Training (14 June 2021) provides doctrinal guidance on training leaders and Soldiers.

Training and leader development are inextricably linked and mutually supportive. Leaders must train their subordinate leaders to train effectively as the unit plans and prepares, executes, evaluates, and assesses training. Short of combat, unit training provides the best and most practical leader development possible. Every Army leader has the responsibility for the professional development of subordinate leaders as training occurs. Leader development is a proactive process and is an integral part of training plans, meetings, and briefings. Leaders must spend time thinking about how to foster and develop the next generation of Army leaders and implement plans and policies to those ends.

Army training prepares Soldiers, leaders, and units to accomplish their assigned missions. To be prepared for ever-changing conditions and varied operational environments, the training environment must be realistic, challenging, and efficient. Training under these conditions requires leaders to prioritize the tasks needed to achieve individual and unit collective proficiency. This also requires selecting the proper means: live-fire, force-on-force, virtual or constructive simulations. The Army Training Support System delivers capabilities in each because the reality of multi-domain operations – especially extended distances and increased lethality – precludes live training for many situations. The Synthetic Training Environment is developing the expanded capabilities to support training management by leaders, to create realistic conditions to challenge leaders and units as they learn how to increase their proficiency, and to provide effective assessment tools for continuous improvement.

Regionally Aligned Readiness and Modernization Model (ReARMM) is the Army's Force Generation Model. ReARMM, as a strategy, is designed to address the contemporary challenges of the current operational environment within the Competition-Crisis-Conflict-Change framework. The model is designed to meet Competition demand, for both known Global Force Management Allocation Plan (GFMAP) and contingency Directed Readiness Table (DRT) requirements, while remaining flexible enough to respond to limited duration crises or the start of a conflict. ReARMM is an evolution from past models, as it seeks to generate required levels of current readiness while simultaneously generating future readiness by protecting deliberate force modernization efforts. ReARMM is centered on the principles of predictability, stability, and synchronization in concert with regional alignment to generate readiness for competition requirements. This allows a disciplined, resource-informed approach to the generation of readiness for both current and future requirements while allowing leaders and units to accomplish Army People Strategy tasks and SECARMY/CSA "People First" priorities.

Maneuver Combat Training Center (CTC) rotations are multi-echelon leader development opportunities that also enable brigade combat teams to enhance brigade and battalion-level command and control, their ability to maneuver in all forms of terrain, and live fire proficiency. Units at all echelons must practice and rehearse deploying "fort to port" in contested environments, acknowledging that adversaries will likely attempt to disrupt deployment activities with cyber-attacks on critical deployment and transportation nodes, while simultaneously attempting to introduce disinformation to further disrupt deployment operations.

Commanders and leaders must take full advantage of opportunities to maintain and increase readiness while deployed. While OCONUS, units must leverage available ranges, training areas, simulations, and simulators as part of their training and leader development strategies. They must seek opportunities to train with joint and multinational partners to further enhance the realism of our training environments. Units must also train as they intend to fight, implementing realism in the networks and mission command platforms they are competing in the Combat Training Centers and deployed rotations today. Corps and Divisions will practice establishing a mission partner environment for interoperability with partner nations as our default network.

Army Training continuously adjusts methods and processes to adapt to a wide variety of external forces such as an evolving geopolitical landscape, natural disasters, global pandemics, limited resources, and other unforeseen external / environmental challenges. The Army manages readiness by first looking at unit capabilities, and then by identifying the appropriate training and continually assessing and evaluating that training.

Navigating the weaver during the obstacle course portion of a competition. (Photo by Sgt. Stacy Cooper, National Guard)

Objective 1.1: *Training Soldiers*

The Army's institutional training and education system for Soldiers includes Initial Military Training (IMT), professional military education, and special skills / functional training. Throughout their career, Soldiers acquire knowledge and skills through resident courses, mobile training teams, and distributed learning. The goal of institutional training is to generate the required quantity of highly proficient Soldiers able to meet the Army's readiness objectives and execute Army missions consistent with their Military Occupational Specialty (MOS).

Performance Indicators: Table 1 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 1.1.a: Fill rate. The fill rate or execution rate measures the number of Soldiers sent to training (input) as a percentage of the number of trained Soldiers needed (quota). In Table 1, the fill rate is calculated as Fill % (Qta) = Input/Quota.
- Measure 1.1.b: Graduation rate. The graduation rate measures the number of Soldiers who graduated from their assigned training as a percentage of input. In Table 1, the graduation rate is calculated as Grad % = Grad/Input.

Table 1 displays data from FY 2019 – FY 2022 for 10 categories of institutional training, including IMT. The objective of IMT is to achieve a quota fill rate of at least 95% and a graduation rate of at least 90%. The Army's overall FY 2022 quota fill rate decreased from the FY 2021 quota fill rate. The decreased fill rate is attributable to lingering effects of COVID-19 and missed Army accessions goals that impacted the number of student inputs in initial entry training, specifically, BCT, AIT and OSUT. The overall FY 2022 graduation rate remained high and consistent with the previous three fiscal years, showing the Army's efficacy in generating graduates from those recruits and Soldiers in attendance. The Army is working diligently to overcome its recruiting challenges and remains committed to maintain readiness and meet national security requirements. Note: Complete FY 2023 data was not available at the time of AFR publication as some courses were still in session.

TABLE 1. Individual Training

Training Category	FY 2019					FY 2020					FY 2021					FY 2022				
	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %
AIT	97,470	80,962	78,273	83%	97%	91,113	76,383	75,025	84%	98%	93,233	79,559	78,336	85%	98%	85,014	61,353	60,995	72%	99%
BCT	86,340	74,379	68,009	86%	91%	86,950	68,293	64,471	79%	94%	86,258	66,181	62,778	77%	95%	78,925	51,532	48,305	65%	94%
BOLC	16,363	14,165	13,877	87%	98%	15,881	13,715	13,487	86%	98%	16,619	15,228	14,873	92%	98%	16,525	14,160	13,738	86%	97%
IERW	1,088	1,088	1,097	100%	101%	1,057	1,087	1,053	103%	97%	1,280	1,156	1,137	90%	98%	1,268	1,251	1,221	99%	98%
IERW-CC	1,157	1,134	1,122	98%	99%	1,145	1,125	1,088	98%	97%	1,272	1,260	1,227	99%	97%	1,297	1,297	1,306	100%	101%
INITIAL LANG	899	797	260	93%	33%	1,126	974	561	87%	58%	1,275	1,219	651	96%	53%	930	888	605	95%	68%
OCS	4,153	4,044	3,290	97%	81%	3,844	3,394	3,123	88%	92%	3,977	3,996	3,586	100%	90%	3,561	3,827	3,358	107%	88%
OSUT	39,577	32,487	27,573	82%	85%	34,487	29,357	26,285	85%	90%	36,618	30,979	27,844	85%	90%	32,765	21,801	19,644	67%	90%
WOBC	3,462	3,040	3,018	88%	99%	3,639	3,266	3,249	90%	99%	4,103	3,817	3,778	93%	99%	4,198	3,820	3,784	91%	99%
WOCS	2,655	2,642	2,510	99%	95%	2,494	2,510	2,373	101%	95%	2,563	2,644	2,506	103%	95%	3,173	3,092	2,981	97%	96%
TOTAL	253,164	214,738	199,029	85%	93%	241,736	200,104	190,715	83%	95%	247,198	206,039	196,716	83%	95%	227,656	163,021	155,937	72%	96%

Training Categories

AIT: Advanced Individual Training
BCT: Basic Combat Training
BOLC: Basic Officer Leader Course
IERW: Initial Entry Rotary Wing
IERW-CC: Initial Entry Rotary Wing - Common Core
INITIAL LANG: Initial Language
OCS: Officer Candidate School
OSUT: One Station Unit Training
WOBC: Warrant Officer Basic Course
WOCS: Warrant Officer Candidate School

Quota Fill and Grad Rates:

>= 95%
95% - 89%
89% - 79%
<= 79%

Note 1: Data reflects Army students only; all Components

Note 2: All data is based on start date, i.e., if a class starts in FY 2019 and graduates in FY 2020, it is counted as FY 2019 data.

Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of October 4, 2023.

Note 4. Complete FY 2023 data was not available at the time of the AFR publication as some courses were still in session.

Objective 1.2: *Training Units*

The Army trains, as part of a joint team, to shape Operational Environments (OEs), prevent conflict, and conduct large-scale combat operations. The Army does this by conducting tough, realistic, and challenging training at home stations, at CTC, and while deployed. The Army's CTC Program remains the foundation of an integrated training strategy that builds trained, proficient, and combat-ready units and leaders to conduct operations as part of the Joint Force.

Performance Indicators: Measure 1.2.a: Percent of Brigade Combat Teams scheduled a maneuver CTC rotation that have completed the rotation.

Performance Results: 100% of brigade combat teams scheduled to participate in a CTC rotation during FY 2023 completed training. For FY 2024 and beyond, Army Senior Leaders directed the following rotational scheduling at maneuver CTCs, as a floor: 8 x NTC rotations, 8 x JRTC rotations, 4 x JMRC rotations, and 2 x USARPAC rotations conducted at JPMRC-AK and JPMRC-HI with CONUS CTC support.

TABLE 2. Brigade Combat Team (BCT) Training

	FY 2023	
	Target	Actual
Percent of BCTs scheduled for a maneuver CTC rotation that have completed the rotation	100%	100%

TABLE 3. Army CTCs also train other force elements in addition to BCTs, including:

Army Service Component Commands
Army Corps
Army Divisions
Army Sustainment Brigades
Functional/ Multifunctional Brigades
Army Special Forces

Objective 1.3: *Developing Adaptive Army Leaders*

Unit training and leader development are the Army's lifeblood. Competent, ethical leaders with a warrior mentality are the Army's competitive advantage. No technology or advanced weaponry or platforms can replace the contribution that well-trained leaders bring to the Service. The Army leader development strategy is the key to preparing the Army for large-scale combat operations. The increasingly uncertain, complex, and interconnected global environment demands that the Army invest in leader development. This development is the life-long synthesis of training, education, and experience acquired through opportunities in the operational, institutional, and self-development domains. These efforts will allow the Army to be ready to deploy, fight, and win decisively against any adversary.

Performance Indicators: Table 4 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 1.3.a: Number of graduates in each course as compared to the quota.

Performance Results: Table 4 displays results of professional development courses within the Noncommissioned Officer Professional Development System (NCOPDS) and Officer Education System (OES). The table provides the number of trained Soldiers needed to meet readiness (quota) and the number of Soldiers graduating from training (grads). The Army will continue to strive to meet the quotas for professional development courses.

TABLE 4. Professional Development

		Professional Development									
		Noncommissioned Officer Professional Development System (NCOPDS)					Officer Education System (OES)				
Number of Leaders Trained		Basic Leader Course	Advanced Leader Course	Senior Leader Course	Master Leader Course	Sergeant Major Course Resident/ Phase 2 Non-resident	Warrant Officer Advance Course Resident	Warrant Officer Intermediate Level Education Resident/ Non-resident	Warrant Officer Senior Service Education Resident/ Non-resident	Intermediate Level Education Resident/ Common Core	Senior Service College/ Resident Distance Learning
FY 2019	Quota	44,012	39,840	23,367	5,514	2,824	2,606	2,377	924	9,924	1,849
	Grads	42,967	35,863	22,399	5,145	1,127	2,179	1,727	750	5,942	750
FY 2020	Quota	42,984	29,046	18,562	5,601	2,572	2,685	2,045	867	11,122	1,974
	Grads	43,009	24,129	16,296	5,210	2,331	2,577	1,211	797	7,763	1,476
FY 2021	Quota	44,303	41,868	22,178	4,560	2,574	2,490	1,439	937	11,538	1,921
	Grads	44,559	36,297	20,065	4,485	2,333	2,909	1,167	887	11,291	1,456
FY 2022	Quota	44,802	43,728	23,721	6,476	2,667	2,656	1,683	821	12,956	1,930
	Grads	39,741	36,218	19,875	5,804	2,142	2,977	781	652	10,885	1,518

Note 1: Data reflects Army students only; all Components.
Note 2: All data is based on start date, i.e., if a class starts in FY 2019 and graduates in FY 2020, it is counted as FY 2019 data.
Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of October 4, 2023.
Note 4: Complete FY 2023 data was not available at the time of AFR publication as some courses were still in session.

Conducting a combined arms maneuver live-fire exercise. (U.S. Army photo by Army Maj. Brett Sullenger)

Soldiers utilize an M1A2 Abrams tank to engage targets during a live-fire exercise. (U.S. Army photo by Staff Sgt. Matthew A. Foster)

Transformation and Modernization

Strategic Goal 2: *Transform the Army to ensure war-winning future readiness to fight and win out nation's wars.*

The future operational environment presents significant challenges to the Army that require more than just the development of the material solutions associated with the term Modernization. To defeat peer adversaries on modern battlefields characterized by contested domains, constant observation, and long-range fires delivered at machine speeds, the Army must transform how it operates, organizes, and equips. Transformation is critical to achieving the Army's mission and must inform changes to the Army along a sustainable strategic path with the flexibility to adopt and integrate emerging technology faster as required.

Army Transformation begins with a focus on the near-term goal of delivering the Army of 2030 by investing, developing, and fielding weapons and platforms with next generation technology that will provide our formations with distinct advantages over peer competitors in six prioritized capability areas of investment:

- Long-Range Precision Fires (LRPF): Develop platforms, capabilities, munitions, and formations that restore U.S. Army dominance in range, lethality, mobility, precision and target acquisition.
- Next Generation Combat Vehicles (NGCV): Develop combat vehicles that integrate other close combat capabilities in manned, unmanned, and optionally manned teaming that leverages semiautonomous and autonomous platforms in conjunction with the most modern firepower, protection, mobility, and power generation capabilities.
- Future Vertical Lift (FVL): A set of manned, unmanned, and optionally manned platforms that can execute attack, lift, and reconnaissance missions on the modern and future battlefield at greater range, altitude, lethality, and payload.
- Army Network: An integrated system of hardware, software, and infrastructure that is sufficiently mobile, reliable, user-friendly, discreet in signature, expeditionary and which the Army uses to fight effectively in any environment in which the electromagnetic spectrum is denied or degraded. The Army has implemented a strategy for a Unified Network.
- Air and Missile Defense (AMD): A series of mobile integrated platforms, capabilities, munitions, and formations that ensure our future combat formations are lethal while remaining protected from modern advanced air and missile delivered fires, to include drones.
- Soldier Lethality: A holistic series of capabilities, equipment, training, and enhancements that span all fundamentals of combat: shooting, moving, communicating, protecting, and sustaining to ensure our Soldiers are more lethal and less vulnerable on the modern battlefield.

The Army aligned the six modernization priorities with several new cross functional teams (CFTs) to regain overmatch and competitive advantage in key cross-cutting areas. The Assured Positioning, Navigation, and Timing / Tactical Space (APNT/Space) CFT provides technological advantage and resiliency against current and emerging threats in contested environments through investments in APNT, Tactical Space, Navigation Warfare, and Tactical Space capabilities. The Synthetic Training Environment (STE) CFT provides Army's first integrated, holistic training capability using emerging technologies from virtual & gaming industries. The STE will enable Combined Arms maneuver in Multi-Domain Operations (MDO) using dynamic one-world terrain and reconfigurable virtual trainers to deliver training at the point of need. The Contested Logistics (CL) CFT addresses the need to sustain forces and equipment quickly on future battlefields, mitigate risks of dispersed operations across multiple domains, and provides integrated sustainment solutions to design the Army of 2040.

To provide a comprehensive plan for modernization going forward, the Army identified objectives across three successive planning horizons: Near (present) to close critical capability and capacity gaps; Mid (FY 2025 to FY 2030) to achieve overmatch and begin fielding next generation capabilities for MDO; and Far (FY 2031 and beyond) to strengthen overmatch and fully field next generation capabilities for MDO. One of the efforts that spans all three planning horizons pertains to Science and Technology (S&T). The Army's S&T portfolio will identify, develop, and demonstrate technology options in the near term that will inform and enable effective and affordable capabilities for the Soldier in the far term and beyond.

Moving to formation-based transformation, along with technological innovation will provide a key bridge between delivering the Army of 2030 and designing the Army of 2040. Future formations, especially the Infantry Brigade Combat Team, must achieve increased lethality through the development of kinetic and non-kinetic systems fully informed by DOTMPLF-P (Doctrine, Organization, Training, Materiel, Leadership and Education, Personnel, Facilities, and Policy). Essential to achieving this is Human-Machine Integration where robots working closely with Soldiers increase protection, extend range, and deliver the desired effects. Continuing to build on network transformation will also be necessary. First, the current network must be optimized to provide assured tactical communications, a commander centric common operating picture, and the ability to employ both offensive and defensive fires. Once that is achieved, resources must quickly pivot to delivering the next network – one that takes full advantage of data and artificial intelligence to enable the Army to take full advantage of rapid continually developing information-based operations. Finally, recognizing the criticality of preparing for and developing DOTMLPF-P informed logistics capabilities that can survive in environments contested from home station to the tactical edge represent a key transformation effort as the Army transitions into the more distant future.

Army Transformation continues with the publication of the Army Warfighting Concept (AWC) 2030-2040 in FY 2024. The AWC provides the baseline for experimentation that will determine the future requirements of the Army of 2040. AFC will design the Army of 2040 to operate with modernized formations and capabilities that sustain Army asymmetric advantages, enable adaptation, and prioritize endurance.

Throughout Army Transformation, technology in some areas will evolve rapidly, creating gaps and/or presenting opportunities to gain asymmetric advantages. The Army must create a process to integrate new or existing technologies into operational units, as holistic capabilities, within 18-24 months of identification. This process will accelerate development, facilitate learning of how best to employ the technology, facilitate adapting formations and training, and will give leaders experience using modern capabilities.

Objective 2.1: *Department of Defense Information Network – Army (DoDIN-A) Global Security Strategy.*

The National Defense Strategy and The Army Strategy note that the global security environment is increasingly complex and characterized by challenges to the free and open international order and the re-emergence of long-term, strategic competition between nations. Army Senior Leaders directed that a holistic Army Network Strategy be implemented to actively work towards gaining network superiority for the Army as a part of the joint force. Accordingly, there are multiple agencies within the Army that are undertaking efforts to modernize the Army's network capabilities. The U.S. Army published the Army Unified Network Plan (AUNP) Framework in September 2021 to organize and coordinate these efforts and to accelerate modernization of the Army's network. The AUNP aligns with the Army Strategy's focus on building readiness, modernizing, reforming the Army, and strengthening alliances and partnerships while taking care of our people and living the Army values. Execution of the AUNP will enable the Army to meet its Title 10 responsibilities to man, train, and equip the force while building and sustaining readiness. Additionally, the AUNP parallels and will enable the Army Campaign Plan over multiple phases and time horizon.

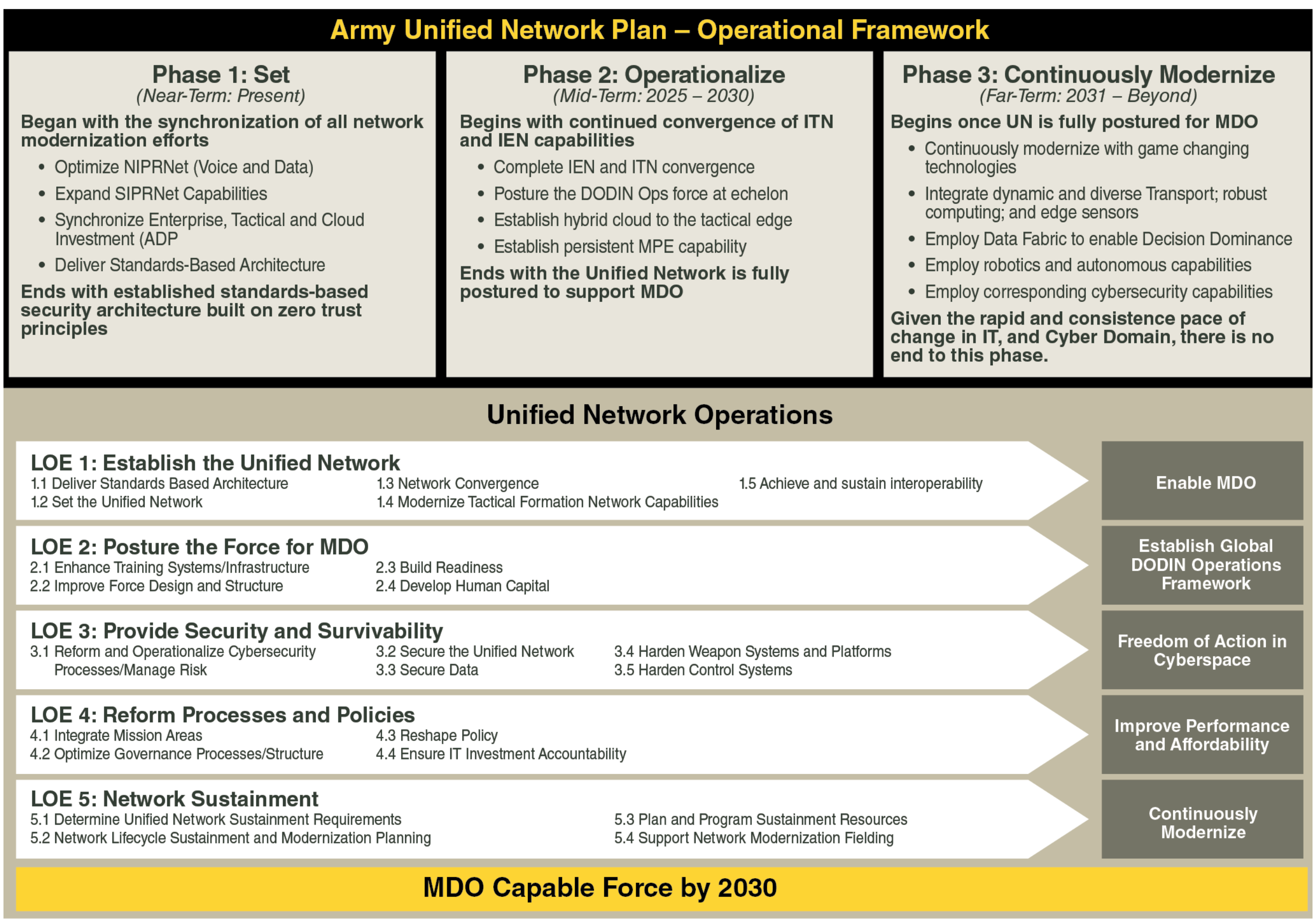
As our Nation's adversaries increasingly contest our historical dominance in all operational domains, the network, and all it entails, is the critical enabler to the success of the future force. The AUNP sets the Army on a path that will ensure technological dominance against all adversaries and establishes the foundation for an aggressive implementation plan to ensure our Warfighters are provided with a network that enables success in fighting and winning our Nation's wars.

The AUNP mirrors the Army Strategy's priorities and supports the Army's intent to build a multi-domain ready force by 2035. It establishes five Lines of Effort (LOEs) critical to shaping the future Army:

LOE 1: Establish the Unified Network—Enabling Multi-Domain Operations
LOE 2: Posture the Force for Multi-Domain Operations
LOE 3: Security and Survivability—Commander's Freedom of Action in Cyberspace
LOE 4: Reform Processes & Policies—Improve Performance and Affordability
LOE 5: Network Sustainment—Sustain Enterprise and Tactical Networks

Figure 3 below displays the AUNP Operational Framework inclusive of Phases, LOEs, objectives and LOE outcomes for the future state of the network.

FIGURE 3. Army Unified Network Plan Operational Framework



This operational framework is a critical element of achieving the overarching Army Vision. Implementation of the AUNP LOEs and their aligned objectives will modernize, shape, and reform the Army's network and policy to better enable mission accomplishment. The modernization efforts represent changes in policy, equipment, and procedures, as well as, complex system of systems engineering to ensure common environments, responsiveness, and capability, globally. Accordingly, no single measure can serve as an indicator of objective achievement. Therefore, the Army uses measure indices to determine the risk surrounding modernization outcomes arrayed across the AUNP LOEs. The index for each LOE is supported by objectives, which in turn are supported by many metrics that roll-up to establish a risk assessment.

Performance Measure / Indicators: The AUNP is currently supported by key performance indicators (KPIs) that are a combination of quantitative and qualitative metrics. The performance indicators are reported monthly and are housed in an Army system of record. The indicators are reviewed on a recurring basis to update and apply relevant assessment factors to the objectives as necessary. The indicators selected by the AUNP community, vetted and approved by senior leaders, are outcome-based measures that change over time, in order to continue to support the LOE they are assigned.

Below is a sample of the current measures that are performance indicators in determining progress in meeting this objective.

- Measure 2.1.a: Objective 3.1.1-1 Achieve 100% of all RCCs and USACE have implemented repeatable, sustainable, standardized processes by March 2023
- Measure 2.1.b: Objective 3.1.1-2 100% visibility and accountability of cloud instances
- Measure 2.1.e: Objective 3.2.2-1 Army Endpoint Security Solution (AESS) deployed across 100% of the Army Unified Network by September 2023

Each metric supports the LOE and Objectives it is grouped under. The AUNP Implementation Execution Order was published in February 2022 and has been amended by Fragmentary Orders to maintain it current. The LOE leads are tasked with identifying the supporting tasks and indicators. Currently LOE 5 is still working to identify key tasks and relevant performance indicators for Network Sustainment where separate networks are transitioning over several years into a unified Snetwork undergoing continuous modernization. The individual metric performance values are combined to create a performance score that is normalized across all elements of the AUNP (e.g. a score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or exceeding planned progress). Grey cells indicate that no performance information was reported at the indicated junction.

Performance Results: Table 5 below displays the annualized risk assessment, based on all the supporting indicators reported, displaying the score and represented by a corresponding stoplight color.

TABLE 5. Army Unified Network Plan Framework Annualized Performance Indicators for the overarching plan

	Performance Roll-up	
	FY 2023	
Army Unified Network Plan Framework	Score*	Goal**
The Army Unified Network Plan	6.82	6.67
LOE 1: Establish the Unified Network	4.24	6.67
LOE 2: Posture the Force for Multi-Domain Operations	4.93	6.67
LOE 3: Security and Survivability	7.61	6.67
LOE 4: Reform Processes & Policies	8.52	6.67
LOE 5: Network Sustainment	2.85	6.67

* A score of 3.33 or less is high risk and indicates 'red' or progress obstacles, and a score of 6.67 or higher is low risk and indicates 'green', meeting or exceeding target score. Blank scores indicate that supporting metrics have not yet been finalized as of AFR publication date.

** Goals are set to 'green' thresholds to identify meeting or exceeding target. A goal of 10 may not be desirable as there is potential it indicates excessive resource allocation that could be applied to other activities.

TABLE 6. Army Unified Network Plan Framework Annualized LOEs Objectives Performance Indicators

	Performance Roll-Up		
Army Unified Network Plan	**FY 2023**		
Line of Effort	**Objective**	**Score***	**Goal****
LOE 1: Establish the Unified Network	OBJ 1.1: Deliver a Standards-Based Network Architecture	1.11	6.67
	OBJ 1.2: Set the Unified Network	1.33	6.67
	OBJ 1.3: Network Convergence	0.56	6.67
	OBJ 1.4: Modernize Tactical Formation Network Capabilities	4.34	6.67
	OBJ 1.5: Achieve and Sustain Interoperability	3.57	6.67
LOE 2: Posture the Force for Multi-Domain Operations	OBJ 2.1: Enhance Training Systems and Infrastructure	0.56	6.67
	OBJ 2.2: Improve Force Design and Structure	0.56	6.67
	OBJ 2.3: Build Readiness	4.93	6.67
	OBJ 2.4: Develop Human Capital	1.67	6.67
LOE 3: Security and Survivability	OBJ 3.1: Reform and Operationalize Cybersecurity Processes/Manage Risk	7.59	6.67
	OBJ 3.2: Secure the Unified Network	8.81	6.67
	OBJ 3.3: Secure Data	9.83	6.67
	OBJ 3.4: Harden Weapons Systems	0	6.67
	OBJ 3.5: Harden Control Systems	4.21	6.67
LOE 4: Reform Processes & Policies	OBJ 4.1: Integrate Mission Areas	10	6.67
	OBJ 4.2: Optimize Governance Processes and Structure	6.67	6.67
	OBJ 4.3: Reshape Policy	8.33	6.67
	OBJ 4.4: Ensure Unified Network Investment Accountability	8.33	6.67
LOE 5: Network Sustainment	OBJ 5.1: Determine Unified Network Sustainment Requirements	3.17	6.67
	OBJ 5.2: Network Life-Cycle Sustainment and Modernization Planning	2.92	6.67
	OBJ 5.3: Plan and Program Sustainment Resources	3.06	6.67
	OBJ 5.4: Support Network Modernization Fielding	2.27	6.67

* A score of 3.33 or less is high risk and indicates 'red' or progress obstacles, and a score of 6.67 or higher is low risk and indicates 'green', meeting or exceeding target score. Blank scores indicate that supporting metrics have not yet been finalized as of AFR publication.

** Goals are set to 'green' thresholds to identify meeting or exceeding target. A goal of 10 may not be desirable as there is potential it indicates excessive resource allocation that could be applied to other activities.

Reform

Strategic Goal 3: *To maximize the value of every dollar, operate transparently, and use resources wisely.*

To reform the Army's current culture, we must continue to foster a commitment to fiscal responsibility and accountability, while continuing to achieve our mission. Continued attention to controlling and reducing the cost of overhead and management structures, while ensuring the associated activities are not negatively impacted, is essential. Instilling a strong cost- and efficiency-conscious culture across the Army through leadership and policy implementation is critical to enabling the Army of the future to deliver value to the Warfighter. Knowing what it costs to deliver business capabilities allows Army leaders to assess the return on investment, leading to improved decision making across the organization. The objectives below align to the overall goal of reform.

Objective 3.1: *Business Transformation Initiatives*

To optimize cost savings and improve the Army's ability to deliver readiness at the best value, the Army continuously reforms and transforms its business operations through a variety of approaches, including the Army Business Management Plan (ABMP), the Army's Integrated Management System (IMS), continuous process improvement (CPI) and business process re-engineering (BPR). Through the effective deployment of these approaches, the Army optimizes the quality and timeliness of its products and services in support of operational readiness and fulfills its obligation to gain full value from every dollar spent on defense.

The ABMP provides the direction and governance to accomplish this. It contains initiatives that will:

- Improve business processes
- Enable reinvestment of time, money, and manpower savings in higher Army priorities and
- Promote rapid, agile, and effective response to evolving Army business needs

ABMP Goals and Objectives

GOAL 1: People

- **1.A.** Talent Management
- **1.B.** Personnel Management
- **1.C.** Management Training and Education
- **1.D.** Diversity and Inclusion

The Army has the workforce capability and capacity to quickly and effectively address current and emerging business needs; it promotes an organizational culture characterized by high performance, engagement, and valuing of diversity and inclusion.

GOAL 2: Data Enabled Enterprise

- **2.A.** Data Analytics
- **2.B.** Data Infrastructure
- **2.C.** Governance

Army leaders and managers at all levels use data and information effectively to guide process management toward the achievement of key organizational results, anticipate and respond to rapid or unexpected organizational or external changes, and identify best practices to share across the enterprise.

GOAL 3: Business Operations and Processes

- **3.A.** Processes
- **3.B.** Structure
- **3.C.** Acquisition

The Army designs, manages, improves, and innovates business operations and processes to control costs, improve performance, and support readiness and modernization strategic objectives.

The IMS framework facilitates the integration of the Army's people, processes, data, and information. Using this framework, the Army can better manage its business operations to systematically and continuously identify, adjudicate, and implement reforms that respond to both our stewardship mandate and Army priorities as they evolve over time.

In synchronization with the Secretary's second objective to become more data-centric, the U.S. Army moves towards a predominate data driven decision-based approach. The Enterprise Data Analytics Strategy (EDAS) and the ABMP establish the trajectory to meet SECARMY's data goals by building Enterprise-wide decision analytic capabilities to meet and improve the business value of the Army information resources.

The Enterprise Data Services Catalog (EDSC) is the Army's registry of authoritative data sources and analytics registry streamlining data governance to improve the dissemination and reuse of enterprise data assets for decision-making. By implementing the data governance, users can quickly search and share meta-data about data sources and completed analytical products, which greatly streamlines the Software Development Lifecycle (SDLC).

The four main initiatives from EDAS are: HQDA Analytics Laboratory (HAL), Deep Green Challenges, Community of Interest for Data Science and Intelligent Automation (COI), and Business Health Metrics (BHM). HAL's primary goal is to assess and solve analytical business cases across the business mission area. HAL aids in creating data analytics and data management methods to improve data decision across the Army. The Deep Green Challenge is the Army's premier annual Data Science and Artificial Intelligence (AI) Challenge, which supports and trains the Army's workforce in advanced data science, AI, machine learning, and computer science methods, while it also solves the most challenging technological challenges throughout the business mission area and warfighter domains and improve the quality and skills of Army Soldiers and Civilians. The BHM initiative shifted the culture of the Army reports from static data to a dynamic display of the most up-to-date data available from multiple domains, allowing senior leadership to make the informed, timely, data driven decisions based on the most current and relevant data available. These metrics are designed to exactly replicate metrics more broadly available to the Department of Defense and provide a synchronized DoD-wide baseline for Army Business Mission Area performance intelligence.

EDAS Goals and Objectives

GOAL 1: Data Analytics and Doctrine Policy

1.1 Establish Army Analytics Board (AAB) and Project Pipeline

1.2 Codify Army's Approach to Analytics

Army Data Analytics doctrine and policy adapt new capabilities to the Army's circumstances. The Army is oriented and organized around fast experimentation to understand, learn, and improve its business operations through data analytics and, as a result, continuously improves Army readiness.

GOAL 2: Data Analytics Organization and Infrastructure

2.1 Establish Chief Analytics Officer (CAO) and HQDA Analytics Cell

2.2 Conduct Army Collaborative Events

2.3 Strengthen Analytics Community of Practice

2.4 Collaborate with Academia and Industry

2.5 Incentivize Analytics Cells at all Echelons

The Army establishes a federated approach to data analytics and data science that provides a mandate, incentives, and opportunity for the growth and maturation of this capability while supporting the further development of establishment of data analytics cells at other echelons and leveraging existing capabilities currently dispersed across the Army.

GOAL 3: Workforce Capability and Capacity for Data Analytics

3.1 Coordinate the Analytics Community

3.2 Identify Positions, Roles and Skills

3.3 Analytics Expertise Aligned to Capability

Through collaborative teams and a range of competencies the Army expands, matures, and sustains a data analytics capability that captures the full business value of its information resources with a broad range of descriptive, diagnostic, predictive, and prescriptive analytics.

GOAL 4: Leadership for Data

4.1 Executive Leader Analytics Training

4.2 Enterprise Analytics Capability Measures

4.3 Leader Incentives to Use Analytics

Both uniformed and Civilian Army Leaders have a working understanding of data analytics. This understanding, coupled with their knowledge of business problems increases the demand signal for data analytics capability and solutions.

GOAL 5: Materiel and Technology Support for Data Analytics

5.1 Evaluation of Tools and Workforce

5.2 Analytics-Informed System Requirements

5.3 Enterprise Data Environments and Tools

The Army's materiel solutions for enterprise data analytics continue to address the needs of the broader Army data analytics community and balance technology solutions with the human resources required to employ them in a cost-effective manner.

CPI efforts continue to improve logistics, program management, buying practices, headquarters restructuring, and other functions to enhance the effectiveness and efficiency of Army operations. The desired end state is an Army that: (1) strives to eliminate all process activity that does not directly lead to enabling operational capability and adaptability, (2) possesses a multi-disciplinary capability and institutionalizes various levels of this capability in Army training and schools, (3) employs technology to streamline the Army force generation processes, and (4) continues to improve the adaptability of generating processes through an organizational redesign, innovation, and integration. The Army sustains its CPI strategy and approach to ensure that it applies the best methods and tools to the complex challenges that face the Army. The Army measures CPI efforts by accounting for direct cost savings or cost avoidance achieved from the FY 2015 baseline, with a target of a 5% increase annually.

In FY 2017, the Army established the BPR Center of Excellence (CoE) to institutionalize and improve the Army's approach to BPR. The CoE delivers four core capabilities: design of BPR curriculum, development of a cadre of trained BPR specialists to support Army's business process owners, support of enterprise BPR efforts across the Army, and serving as the senior review authority providing an evaluation of BPR efforts in support of the Business Capability Acquisition Cycle (BCAC). The BPR CoE currently supports the training of BPR practitioners, continues to develop modernized BPR approaches, and provides direct support to commands and Defense Business System proponents and developers to improve and streamline business processes in support of the Army's Business Mission Area (BMA).

In FY 2019, the Army established the Army School of Business at the Army Logistics University, Fort Gregg-Adams, formerly known as Fort Lee VA. The School consolidates BMA Training to include Lean Six Sigma (LSS), BPR, Robotic Process Automation, Data Analytics for Non-Operations Research and Systems Analysis (ORSAs) and other business-related courses.

In FY 2022, the focus was expanded to engage in more enterprise level initiatives. Since then, the community has executed enterprise projects impacting critical Army Senior Leader focus areas. Key projects include:

- Reduction in Procurement Administration Lead Time (time from request to contract execution)
- Optimizing organizational design of the Office of the Provost Marshal General (OPMG) and Criminal Investigations Division (CID) Command staffs to facilitate and improve unity of effort under the PMGs direction to exercise mission command over OPMG, Army Corrections Command (ACC), the Defense Forensics and Biometrics Agency (DFBA) and the U.S. Army Criminal Investigation Command (USACIDC).
- Improvement to Army Marketing processes. The Army lacks a consistent understanding of the processes to forecast, allocate and distribute (request) resources to affect recruiter efficiency & effectiveness w/ respect to Advertising and Marketing, resulting in missed prospect engagement opportunities.
- Re-engineering efforts to identify opportunities to reduce Recruiting Applicant Medical processing time, which currently averages 70 days.

Performance Indicators: The measures below are performance indicators in determining progress in meeting this objective.

- Measure 3.1.a: Financial benefits conferred from CPI/BPR initiatives
- Measure 3.1.b: Number of students trained in BPR Foundation course
- Measure 3.1.c: Number of students trained in BPR Intermediate course
- Measure 3.1.d: Percentage completion of ABMP initiatives
- Measure 3.1.e: Number of students trained in the IMS Course

Performance Results: The Army developed an intensive IMS Course for senior leaders. The course was piloted in October 2021 with 20 students and continues to provide significant benefit to graduates. It is designed to develop an understanding of the Army's IMS framework as a blueprint for leading and managing high-performing organizations. Students learn how to critically assess operations of their own organizations and provide recommendations for continuous improvement. The Office of Enterprise Management (OEM) teaches this course semi-annually.

In FY 2023, 135 students completed the Tier One Foundation course, and 54 students completed the Tier Two Intermediate course, with 6 students attaining Tier Three certification. To date, the BPR CoE has trained 1,100 BPR practitioners (765 Foundational, 315 Intermediate, and 20 Advanced).

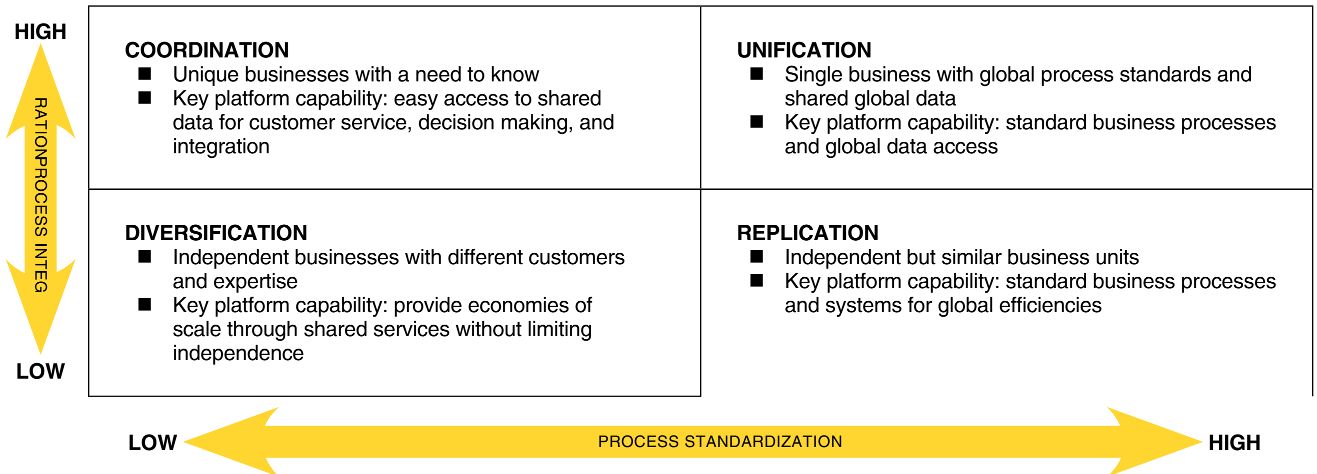
Army Lean Six Sigma student population remained robust: 152 Green Belt, 23 Black Belt, 6 Master Black Belt. Additionally, the Army certified 42 Lean Six Sigma practitioners, which included 37 Green Belts, 2 Black Belts and 3 Master Black Belts.

Each of the projects resulted in significant insights, observations and recommendations that were approved by Army Senior Leaders and an execution strategy implemented.

Objective 3.2: *Establish the Army Business Mission Area (BMA) business system information technology model (Figure 4) with major emphasis on the unification quadrant.*

Define and develop incremental ERP capabilities to support specific lines of business while enhancing overall enterprise agility, performance assessment, accountability, decision-making, and overall effectiveness in an increasingly resource constrained environment.

FIGURE 4. BMA Business System Information



Performance Indicators: Planned system retirements and enduring target systems on schedule completion.

- Measure 3.2.a: Planned legacy system retirements accomplished on time. Target: 95%.

Performance Results: In total, the Army retired 39 legacy DBS investments during FY 2023. The Army continues to conduct aggressive Portfolio Management practices, Business Process Reengineering (BPR) activities and relentlessly seeks opportunities to retire obsolete capabilities sooner.

Enterprise Business Systems – Convergence (EBS-C) is the Army's initiative to modernize and streamline sustainment and finance business processes to increase velocity and fidelity of decisions on the battlefield. The EBS-C modernization effort is essential to Army readiness since many of today's sustainment and financial management processes are fractured between multiple systems, causing delays in processing time, degrading visibility, and auditability. The Army chose to converge into a common platform that will deliver clear business and readiness improvements. A modernized system enables strategic readiness and provides the warfighter and workforce with the modern capabilities to execute sustainment and fiscal management operations, bridging tactical and strategic capabilities into one converged solution.

EBS-C recently transitioned to an agile software acquisition path and now follows the DODI 5000.87 Operation of the Software Acquisition Pathway process and is beginning work in Phase 3 (Functional Requirements and Acquisition Planning). During FY 2023, the Program Executive Office – Enterprise Information Systems (PEO-EIS) established a Project Management Office (PMO), an increased leadership level from the Product Office established in 2020. The PMO is currently executing the acquisition approach outlined by the Army Acquisition Executive (AAE). EBS-C is following the other transactional authority acquisition approach and focused on attaining an Acquisition Authority to Proceed (ATP) after the projected awarding of a Prototype contract. Follow-on actions in this phase include providing upward invites to vendors who will illustrate converged process capability and inform the functional and acquisition program (funding and requirements).

Army Senior Leaders directed strategic outcomes include modernizing defense business system capabilities using industry best practices, which are infused into EBS-C's "Commercial and Possible, as Military as Necessary" approach during the ongoing Army-wide BPR efforts. Multiple cross-functional Product teams were built using an Army execution order (EXORD) which increased staffing of the EBS-C effort to over 200 personnel – staff to support the effort plus subject matter experts from across all levels of the Army to conduct process reengineering and ensure every user's voice is heard. These teams are addressing inefficient manual processes and incorporating human-centered design methodologies up front to close the gaps between existing systems and processes from acquisition through disposition.

Given that EBS-C is not yet an Army program of record, which occurs in FY 2024, performance indicators have not yet been defined and there are no performance results to report at this time.

A soldier hugs a loved one upon returning from a yearlong deployment. (Photo by Staff Sgt. Joseph R. Morgan)

People

Strategic Goal 4: *The Army must maintain the quality and viability of the all-volunteer force, as well as the many capabilities it provides the Nation, to sustain Soldiers, their Families and Army Civilians in an era of persistent conflict. Sustainment ensures that Soldiers and their Families have the quality of life they deserve which leads to improved retention rates.*

People are the Army's most valuable assets and are critical to achieving all aspects of the Army mission. Taking care of Army Service members, their Families, and Civilian staff is a commitment that the Army continues to honor. The Army will make the most efficient use of the Total Force by targeting areas such as transition and personnel planning to remain agile and responsive, regardless of the current fiscal challenges. The Army will initiate efforts to reinvent the Civilian workforce and military service members everywhere: bringing in and retaining highly skilled people; rewarding and promoting people based on performance and talent; and thinking about ways to broaden experience.

Objective 4.1: *Manning the Force—Recruiting and Retaining Soldiers*

The Army achieved its active component FY 2023 end strength goal of 452,000 and will maintain its ability to fulfill its requirements as outlined in the current National Defense Strategy. The Army will continue to consider and develop options that allow us to demonstrate to qualified young people how Army service can contribute to their personal and professional goals.

Performance Indicators: Tables 7–11 display measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.1.a: Quality Percent Tier 1 Educational Credential Holders [Active Component (AC)].
- Measure 4.1.b: Total Enlisted Recruiting.

- Measure 4.1.c: AC End Strength. The number of Soldiers on active duty at the FY-end; data as of September 30, 2023; does not include Soldiers on Active Duty for Operational Support. Goals and minimums for FY 2019 – FY 2022 established by SECARMY, approved by the Secretary of Defense, and within 2% of end-strength limits identified within the NDAA. Other goals and minimums were directed in the corresponding NDAA.
- Measure 4.1.d: Reserve [Army National Guard (ARNG) and U.S. Army Reserve (USAR)] End Strength. The number of Soldiers in ARNG and USAR; data as of September 30, 2023. Goals for FY 2019 – FY 2022 established by SECARMY, approved by the Secretary of Defense, and within 3% of end-strength limits identified within the NDAA.
- Measure 4.1.e: Number of Soldiers reenlisted during a given FY against published goals.

Performance Results: The Army, along with the other Services, is experiencing significant headwinds in recruiting this year. However, the Army remains committed to maintaining standards of excellence and recruiting quality over quantity. The Army's continued commitment is to achieve at least a 90% rate of new recruits with Tier 1 educational credentials, at least 60% for CAT I – IIIA on Armed Forces Qualification Test (AFQT) scores, and at most 4% for CAT IV on AFQT scores. The total Army has achieved approximately 95.94% Tier 1s, 61.7% on CAT I – IIIAs, and 3.6% on CAT IVs recruits for FY 2023. All measures of attrition have remained relatively constant and the overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force. In FY 2023, the Army offered monetary, quick-ship bonuses, and non-monetary, duty station of choice, incentives for applicants to contract and ship to basic combat training.

The Army did not achieve the AC, USAR, and ARNG FY 2023 recruiting missions. However, the Army achieved its Active Component FY 2023 end strength goal of 452,000 maintaining its ability to fulfill its requirements as outlined in the current National Defense Strategy. The Army continues to consider and develop options that allow it to demonstrate to qualified young people how Army service can contribute to their personal and professional goals.

The retention program continued to support Army readiness by retaining Soldiers serving in high demand special skills areas. In FY 2023, the Army continued to utilize the selective retention bonus program to attract and retain personnel in critical skill areas, including Cyber Operations Specialist, Special Forces, and Cryptologic Linguist. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army exceed its FY 2023 retention goal. The Army continues to utilize monetary and non-monetary incentives to sustain continued retention success.

> *"Audit is complex but also simple. The scope makes it complex, but the fundamental truth of what we need to do to ensure auditability is to simply comply with our processes, procedures, and SOPs. Disciplined execution is what will make the Army not only auditable, but also a better, more effective organization."*

MR. MIKE COOK
Acting Deputy Chief of Staff for Resource Management, G-8, US Army Materiel Command (AMC)

Army paratroopers participate in sustained airborne training. (U.S. Army photo by Army Spc. Vincent Levelev)

TABLE 7. Quality Percent Tier 1 Educational Credential Holders (Active Component)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Tier 1 Goal	90%	90%	90%	90%	90%	90%
Tier 1 Actual*	95%	94%	96%	93%	94%	95%

*Actual data as of September 30, 2023.

TABLE 8. Enlisted Recruiting

	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual	FY 2023 Goal	FY 2023 Actual	Percent Delta
Active Component	69,972	68,185	62,151	57,500	57,606	60,000	44,901	65,500	50,181*	-23.4%
ARNG	34,629	39,063	42,730	42,957	34,658	38,430	24,829	30,880	29,310*	-5.1%
USAR	11,327	15,304	13,706	15,875	11,690	14,650	9,095	14,650	9,319*	-36.4%

*Actual data as of September 30, 2023. The Percent Delta has no adverse impact on Army Operational Readiness.

TABLE 9. Active Component End Strength

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Goal	483,500*	478,000**	485,000**	485,900**	476,000**	465,000*
Actual	476,179	483,941	485,383	486,490	465,625	452,000
Percent Delta	-1.5%	+1.2%	+0.1%	+0.12%	-2.18%	-2.8%

*Goal and minimum of FY 2018 and FY 2023 identified within the NDAA.

**Goal and minimum of FY 2019 – FY 2022 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the NDAA.

TABLE 10. Reserve (ARNG and USAR) End Strength

	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual	FY 2023 Goal	FY 2023 Actual	Percent Delta
ARNG	335,204	335,973	334,828	336,500**	337,525	336,000**	329,705	325,000*	325,074	+0.11%
USAR	188,811	190,719	188,964	189,800**	184,358	189,500**	176,171	177,000*	177,345	+0.1%

* Goal and minimum of FY 2023 identified within the NDAA.

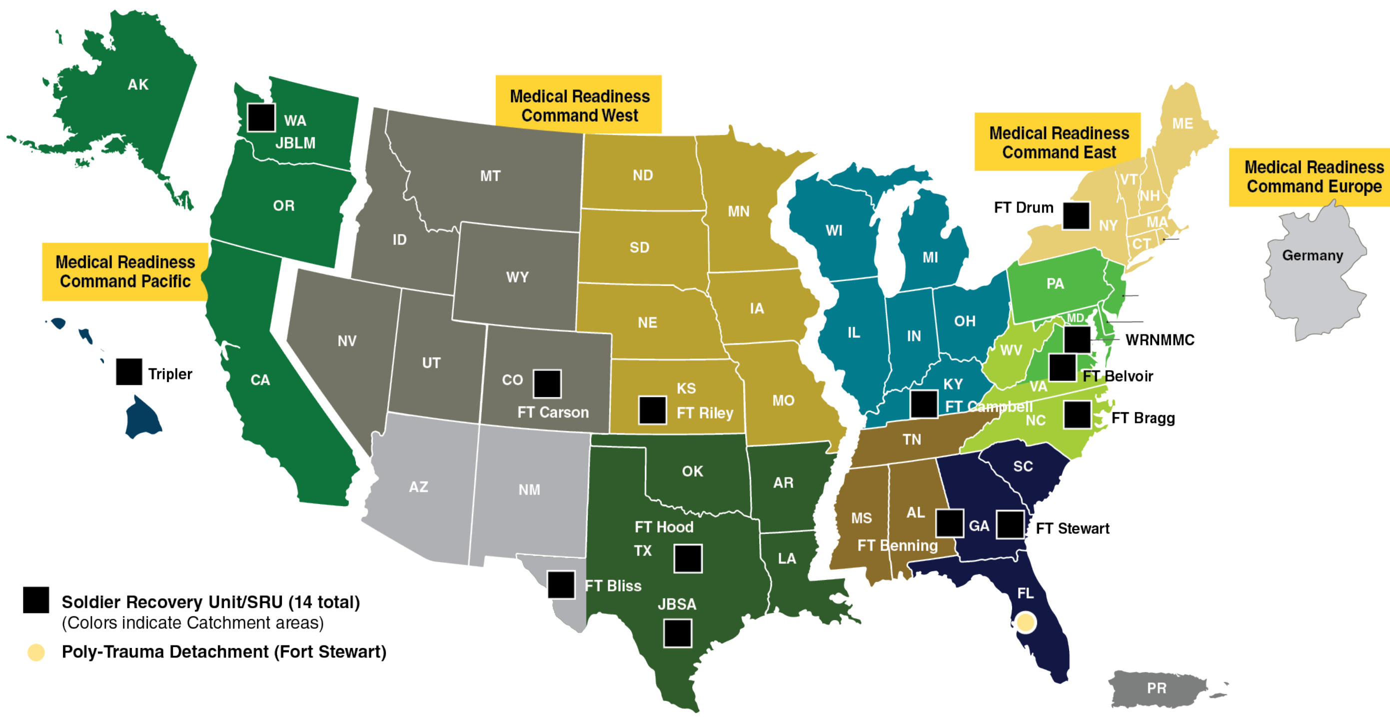
**Goal and minimum of FY 2019 – FY 2022 established by SECARMY, approved by SECDEF, and within 3% of end-strength limits identified within the National Defense Authorization Act (NDAA).

TABLE 11. Active, National Guard and Reserve Component Retention

	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual	FY 2023 Goal	FY 2023 Actual	Percent Delta
Active Component	55,881	51,331	53,024	56,275	58,141	55,934	58,303	55,110	56,239*	-2.9%
ARNG	34,913	36,138	34,260	33,624	36,628	35,345	31,908	37,497	36,402*	-21.4%
USAR	19,012	17,089	13,004	11,000	12,528	13,500	10,513	11,500	11,417*	+6.8%

* Actual data as of September 30, 2023.

Objective 4.2: Providing Warrior Care and Transition



The Army Recovery Care Program (ARCP) has the congressionally mandated mission to provide the Army's wounded, ill, and injured (WII) Soldiers, Veterans, and their Families with the medical management, access to care, and transition support they need and earned. As a staff directorate of U.S. Army Medical Command (USAMEDCOM) G-3/5/7, it is led by its Director, Army Recovery Care Program - (ARCP). The ARCP is the U.S. Army's proponent for overseeing, integrating, and synchronizing policy, advocacy, and implementation of warrior care initiatives that contribute to Army Readiness. Program population was 1,467 as of September 2022 and 1,740 as of October 2023. It should be noted that with the implementation of single-entry criteria and the Remote Medical Management (RM2) program, there are an additional 240 RM2 Soldiers currently aligned with the program. Since October 2022, 1,931 Soldiers entered the program. This does not include 'admin management' Soldiers but does include Soldiers eventually achieving RM2 status. An additional 3,864 Soldiers spent at least one day in the program during the last 12 months.

The cornerstone of the program is the Comprehensive Recovery Plan (CRP). For those Soldiers across the Army that are approved entry into the program, the CRP employs six interdisciplinary processes to produce a tangible, achievable plan of action devised by the Soldier in collaboration with Soldier Recovery Unit (SRU) clinicians and SRU leadership. Although standardized, the CRP allows each Soldier to customize their recovery process, enabling them to set and reach their personal goals. Recovery Care Coordinators (RCCs) and the interdisciplinary team of the ARCP support the CRP and ensure access to benefits, resources, and enhanced care throughout the recovery and transition process.

Objective 4.2.1: ***Provide centralized oversight, guidance, and advocacy to enable wounded, ill, and injured Soldiers, Veterans, and Families to implement their CRPs to return to the force or to transition to the civilian community with dignity, respect, and self-determination.***

Performance Indicators: Tables 12 and 13 correspond to the following performance measures that guide meeting the above objective.

Readiness & Oversight:

- Performance Measure 4.2.a: Continued Soldier time-in-program reduction.
- Performance Measure 4.2.b: Percent of Soldiers returned to the force as a part of Army readiness and lethality.

Performance Results: The ARCP's focus on providing enhanced access to care for ARCP Soldiers contributes to the Army's total force readiness. Of the more than 86,500 Soldiers have entered and completed ARCP, 42% have returned to the force (RTF/RTD). This is an RTF rate that the ARCP has maintained for the past several years and includes all Soldiers completing the program since June 1, 2007. The RTF rate for all components for FY 2021 was 45%, FY 2022 was 38% and in FY 2023 the rate was 39%.

Policy: Army Recovery Care Program Policy Branch is currently working on a revision to Army Recovery Care Program, AR 40- 58, which will clearly address policy gaps related to the program restructure. This revision is tentatively slated for publication in 2024. Furthermore, the Policy Branch is developing a new DA Pamphlet that will accompany the AR 40-58, which will align the processes and procedures, slated for publication in 2024.

Training: ARCP provides a mixture of distance learning and resident training to educate SRU cadre as well as ARCP directorate staff. Among the resident courses ARCP conducts are several designed to meet the needs of SRU personnel, ranging from the SRU command team to squad leaders, nurse case managers, clinicians, and transition coordinators. Training includes ARCP and SRU organization and operation, ARCP policy, behavioral health topics, leadership, patient movement, transition, and resilience. Principal among these courses is the Senior Leaders and Clinicians Course (SLCC), held quarterly. The course provides a program overview highlighting the roles and responsibilities for senior personnel and clinicians. This training prepares them to assume positions at either an SRU or Regional Health Command (RHC) Recovery Care Office (RCO). ARCP hosts an annual Training Summit which provide training and updates to program policy to SRU personnel. ARCP continues to use the virtual platform to conduct training summits on MS Teams. In coordination with TRADOC, MEDCoE, the ARCP courses conducted in San Antonio, Texas for SRU staff has returned to in-person training. A comprehensive Task Analysis was conducted over the course of three months which included a one-week live session for each of the three major audiences, (1) Nurse Case Managers/Social Workers, (2) Squad Leaders/Platoon Sergeants/Detachment Commanders/ First Sergeants and (3) Physical Therapists/ Occupational Therapist/Transition Coordinators. ARCP Training team continues to work with the MEDCoE to update the curriculum IAW TR 350-70, Army Learning Policy and Systems.

Soldier Transition: ARCP's Career and Education Readiness Branch (CERB) is responsible for policies and programs to prepare ARCP Soldiers to Return Duty or transition to Veteran Status and civilian life. CERB implements programs, drafts policy, and coordinates with stakeholders to maintain or improve measures of performance throughout the FY. The CERB's strategic plan includes objectives in the following functional areas: policy, training, evaluation, strategic communication, and external partnerships to continue validating CER participation and documenting its long-term results. CERB establishes the foundation for success for new Transition Coordinators during the Initial Transition Coordinator Training Course. Then, utilizing quarterly Transition Coordinator training sessions and an annual Transition Coordinator Training Conference, CERB transforms ideas and best practices into policy, thereby continuing the increase of participation rates amongst eligible Soldiers in CERB-sponsored opportunities. Lastly, CERB validates the program via Medical Readiness Command (MRC) oversite and staff assistance visits as requested at the 14 SRUs.

Policy Oversight and Compliance: ARCP used to send teams to visit each SRU no less than once each 18 months. These teams evaluated SRU compliance with policies, procedures, and best practices, with an overall compliance rate of nearly 90%. The program is currently being relooked and revised.

TABLE 12. End of Fiscal Year Soldier Average Time in Program[1,2]

	Average Length of Stay (in days) by Fiscal Year (FY)				
	FY 2020	FY 2021	FY 2022	FY 2023 Goal	FY 2023
Active Component	275	297	256	<270	267
Army National Guard	297	279	247	<270	259
US Army Reserve	318	284	229	<270	310
All Components Average	292	289	246	<270	277
Source: Medical Operational Data System Warrior Transition (MODS-WT) as of September 30, 2023					

[1] "Time in Program" is calculated by average days in the program for Soldiers current in the program at the time information was analyzed (last week of each FY). The table above should be read as follows, for the 1,748 Soldiers currently in the program on September 30, 2023, they are averaging 277 days in the program. These numbers do not include RM2 Soldiers or "ADMIN" Soldiers.

[2] Time in Program averages for the ARNG, USAR, and All Components Average was impacted by the RM2 program (RM2 and 'ADMIN' not included in these numbers)

TABLE 13. Return to Force [3,4]

	Return to Force (RTF) Rates			
	FY 2020	FY 2021	FY 2022	FY 2023
Active Component RTF	19%	25%	11%	11%
Army National Guard RTF	63%	60%	60%	69%
US Army Reserve RTF	60%	62%	55%	68%
Total Completed in FY	2,592	1,693	1,381	1,546
Total RTF in FY	1,021	758	496	709
All Components RTF	39%	45%	36%	46%
Source: MODS-WT				

[3] By returning an SFC to active duty instead of separation, the Army saves $988,000 (Source: Wounded Warrior Transition Analysis, Center for Army Analysis, 15 May 2017). Data does NOT include RM2 or 'ADMIN' Soldiers.

[4] RTF rates are calculated by counting the number of all Soldiers who RTF in that FY and dividing by the number of all Soldiers exiting the ARCP in that FY.

Objective 4.3: *Improving Soldier and Family Housing*

The Army has pledged to provide for Soldiers and their Families a quality of life commensurate with their service. Continued Congressional support to improve both family housing (FH) and unaccompanied housing (UH) enabling the Army to fulfill its pledge. The Army continues to eliminate inadequate FH and UH at enduring locations through replacement and improvement projects, and divestiture of excess or substandard inventory.

The Army's housing resource investment has been shaped to meet the Office of the Secretary of Defense (OSD) directed targets of 90% of the housing inventory with a facility condition index (FCI) of 80% or higher. While OSD uses the FCI, the Army equivalent are Quality (Q) ratings and the ratings Q1 and Q2 are the Army equivalent of ratings that are 80% FCI or higher.

By providing housing allowances, the Army enables Soldiers, with and without dependents, to secure adequate and affordable housing in the local community. Approximately 70% of Soldiers are housed in this manner through the Housing Services Offices at the Army garrisons worldwide. The Army maintains about 10,008 Army-owned FH units and seeks to improve or replace inadequate FH to achieve an inventory that consists of 90% being quality-rated Q1 or Q2. If necessary, the Army programs for FH construction projects to build inventory to reduce quantity deficits or to replace housing not economical to renovate.

The Army has also utilized FH and UH privatization options to deliver adequate and affordable housing on Army installations in the U.S. The Army's privatized housing program exists at 44 installations in the U.S., including Alaska and Hawaii with a current inventory of 86,462 family homes. The Army privatized housing program also has five UH privatization projects at Forts Irwin, Drum, Liberty, Stewart, and Meade with an inventory of 1,592 unaccompanied apartments. The

Army oversees and maintains its on-post lodging at locations in the U.S., including Alaska, Hawaii, and Puerto Rico through the Privatized Army Lodging (PAL) program. The PAL program operates at 40 installations with an inventory of 12,275 guestrooms.

As of the end of 3rd Quarter of FY 2023, the UH (barracks) portfolio is vast. The DCS, G-9 oversees about 6,800 UH buildings that can house approximately 480,000 spaces. The types of UH include permanent party (PP), institutional training (IT), and collective training (CT).

The Army has primarily focused on improving the quality of PP UH and has established plans to raise the quality ratings to meet the OSD 90% Q1/Q2 goal in FY 2030. The Army also continues to make investment for IT and CT UH. It is projected to report 86% of IT and 78% of CT UH inventory rated Q1/Q2 by the end of FY32 with the Army's Facility Investment Plans (FIPs) and sustainment requirements 100% funded.

Objective 4.3.1: *Family Housing Quality*

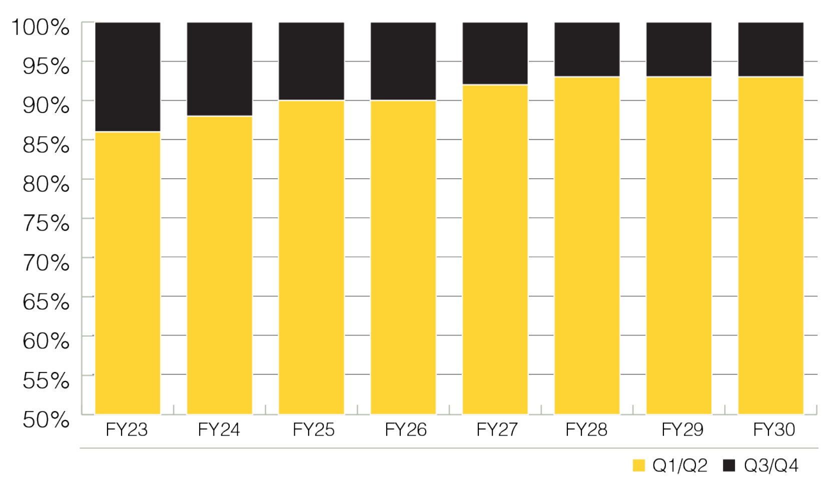
The Deputy Chief of Staff (DCS), G-9 expects the Army-owned FH inventory will reach the OSD 90% Q1/Q2 goal for FH in FY 2025.

Performance Indicators: Figure 5 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.1.a: The percent of Army FH rated Q1/Q2 versus Q3/Q4.

Performance Results:

FIGURE 5. Family Housing with Quality Rating 1-4



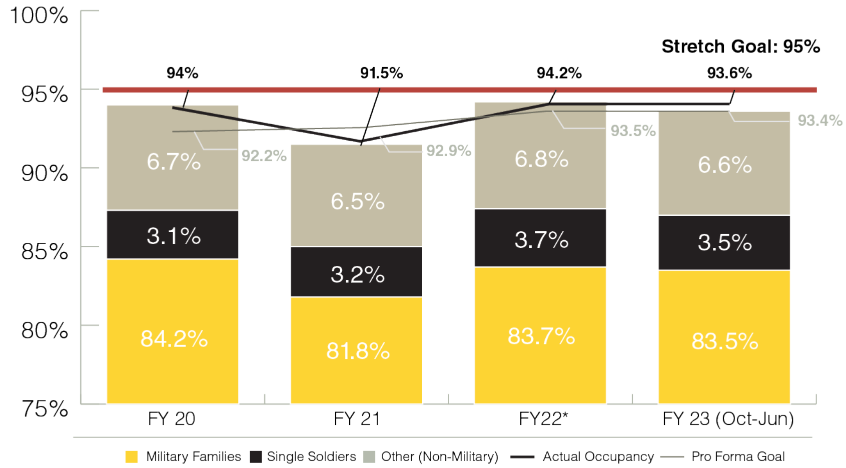
Objective 4.3.2: *Privatized Family Housing Occupancy*

Performance Indicators: Figure 6 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.2.a: Occupancy increase/decrease for privatized family housing.

Performance Results:

FIGURE 6. Occupied Privatized Family Housing



*FY22 data is as of September 2022; prior year AFR reported FY22 data as of March 2022, as data was not available by FY 2022 AFR publication date

Objective 4.3.3: *Army Unaccompanied Housing*

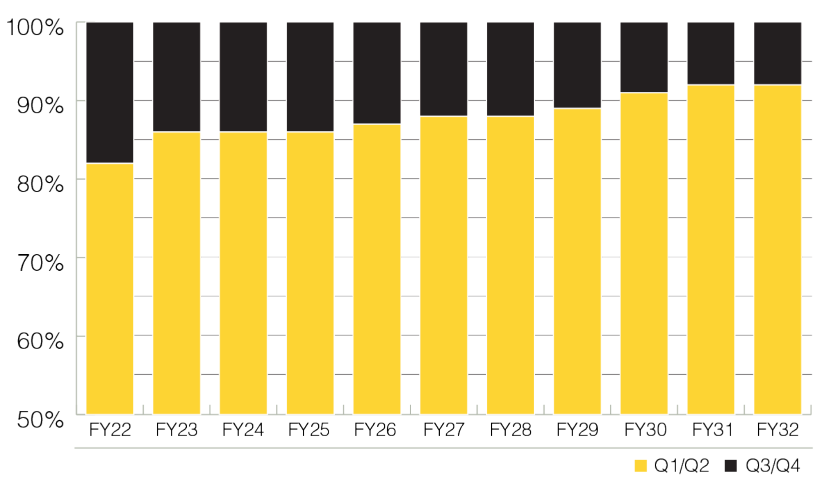
The Deputy Chief of Staff, G-9 anticipates the Army will achieve the OSD 90% Q1-Q2 goal for PP UH in FY 2030, IT and CT UH are projected to report 86% and 78% of the inventory, respectively, rated at Q1/Q2 by the end of FY 2032 with Army's sustainment requirements 100% funded.

Performance Indicators: Figures 7-9 display measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.3.a: Percent of permanent party UH rated Q1/Q2 versus Q3/Q4.
- Measure 4.3.3.b: Percent of institutional training UH rated Q1/Q2 versus Q3/Q4.
- Measure 4.3.3.c: Percent of collective training UH rated Q1/Q2 versus Q3/Q4.

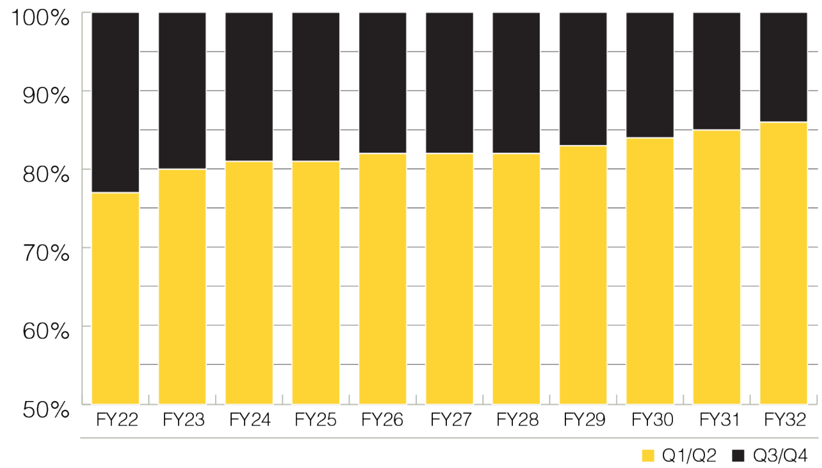
Performance Results:

FIGURE 7. Permanent Party UH



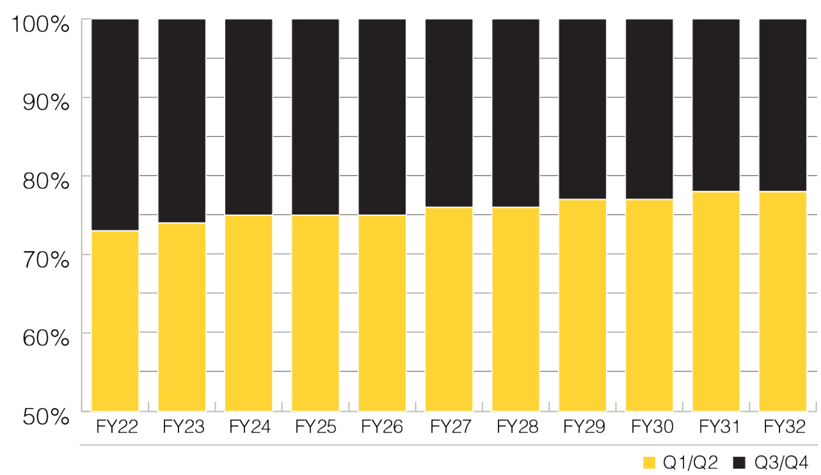
For permanent party UH, the Army had 188,035 bedspaces at the end of 3rd Quarter FY 2023; 81% at Q1/Q2.

FIGURE 8. Institutional Training UH



For institutional training UH, the Army had 109,757 bedspaces at the end of 3rd Quarter FY 2023; 78% at Q1/Q2

FIGURE 9. Collective Training UH



For collective training UH, the Army had 181,115 bedspaces at the end of 3rd Quarter FY 2023: 73% at Q1/Q2.

Objective 4.4: *Enhancing the Civilian Workforce*

Enhancing the Civilian workforce includes filling vacant Civilian positions as timely as possible to meet mission requirements while still executing within budget. The Army Civilian workforce includes over 260,000 employees working in approximately 500 unique job series, comprising about 21% of the Total Army Force. Civilians work as Appropriated Fund (AF) Military Function employees (including dual-status military technicians working for the Army National Guard and US Army Reserve); Non-appropriated Fund (NAF) employees in support of Morale, Welfare, and Recreation (MWR) programs and child/youth development; and Civil Works funded employees. The Army also employs foreign nationals (FNs) in both a direct hire and indirect hire status. As of 30 September 2023, Civilian strength by category was as follows:

Total Civilians: 261,886	
Appropriated Fund (Military Function):	**210,952**
US Direct Hire:	192,708 ■ 157,838 Army Civilians ■ 27,094 Army National Guard Title 32/Title 5 ■ 7,776 US Army Reserve Military Technicians
FN Direct Hire:	5,864
FN Indirect Hire:	12,380
Non-Appropriated Fund:	**24,163**
Civil Works:	**26,771**

Objective 4.4.1: *Execute Army Civilian positions within 2% (98% - 102%) of authorizations.*

Executing Civilian positions within authorizations ensures that the Civilian workforce is staffed to meet mission requirements. Executing above or below authorizations can put the Army at risk for funding in the future and can impact support to the Soldier and to the mission.

Performance Indicators: Table 14 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.1.a: Percentage execution of Civilian positions (end of year on-board versus FY 2023 authorizations in the President's Budget (PB24).

Performance Results: The Army has executed slightly below its FY 2023 authorizations throughout the fiscal year. While under-execution may impact Army Civilian readiness due to being unable to fill all authorized billets, the Army is currently within manageable levels. The Army can affect its execution through natural attrition and/or adjusting hiring practices. The Army can mitigate Civilian personnel shortfalls with contract personnel, increasing the use of overtime, or other workforce management practices. The Army achieved its goal by finishing the fiscal year within the range of 98-102% of execution.

TABLE 14. Civilian Execution

Measure	Goal	FY 2020	FY 2021	FY 2022	Q1 FY 2023	Q2 FY 2023	Q3 FY 2023	Q4 FY 2023
Civilian Execution Percentage [On-Board vs. FY 2023 Authorizations (PB24)]	98% - 102%	101.6%	99.1%	99.97%	98.6%	98.2%	98.9%	98.9%*

*Q4 FY 2023 data is as of August 2023; data as of September 2023 not available by AFR publication date.

Objective 4.4.2: *Attain fewer than 11 Mission Critical Occupations (MCOs) below 90% fill.*

The Army must ensure that its MCOs are filled adequately. This not only ensures that the Army is executing within budget, but that it is distributing its resources appropriately to support critical missions. Table 15 shows the current 54 MCOs recognized by the Army through FY 2023.

Performance Indicators: Table 16 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.2.a: Number of MCOs below 90% fill [on-board versus Table of Distribution and Allowances (TDAs) authorizations].

Performance Results: The number of Army MCOs below 90% fill remained below 11 throughout the fiscal year. The Army updated its MCO list for FY24/25 which will necessitate an update to this metric for future reports.

TABLE 15. OSD and Army MCOs (The Army recognizes all OSD MCOs as Army MCOs)

Occ. Series #	Occupational Series Description	Source of MCO	MCO Covered by a DHA?	Occ. Series #	Occupational Series Description	Source of MCO	MCO Covered by a DHA?
80	Security Administration	OSD	May be covered	651	Respiratory Therapist	Army	Covered
81	Fire Protection and Prevention	Army	May be covered	660	Pharmacist	OSD	Covered
83	Police	OSD	May be covered	662	Optometrist	Army	Covered
85	Security Guard	Army	May be covered	680	Dentist	OSD	Covered
130	Foreign Affairs	OSD	May be covered	681	Dental Assistant	Army	Covered
131	International Relations	OSD	May be covered	682	Dental Hygiene	Army	Covered
132	Intelligence	OSD	May be covered	701	Veterinary Medical Science	Army	Covered
180	Psychologist	OSD	Covered	801	General Engineering	Army	May be covered
185	Licensed Clinical Social Worker	OSD	Covered	855	Electronics Engineering	Army	May be covered
201	Human Resource Management	OSD	May be covered	1035	Public Affairs	OSD	May be covered
260	Equal Employment Opportunity	OSD	May be covered	1040	Language Specialist	OSD	May be covered
341	Administrative Officer	OSD	May be covered	1102	Contracting	OSD	May be covered
346	Logistics Management	OSD	May be covered	1152	Production Control	OSD	May be covered
391	Telecommunications	OSD	May be covered	1550	Computer Science	OSD	May be covered
501	Financial Admin & Program Mgmt	OSD	Covered	1670	Equipment Services	OSD	May be covered
510	Accounting	OSD	Covered	1701	General Education & Trng	OSD	May be covered
511	Auditing	OSD	Covered	1702	Education & Training Tech	OSD	May be covered
560	Budget Analysis	OSD	Covered	1710	Education & Vocational Trng	OSD	May be covered
602	Physician	OSD	Covered	1712	Training Instruction	OSD	May be covered
603	Physician Assistant	OSD	Covered	1811	Criminal Investigating	OSD	May be covered
610	Nurse	OSD	Covered	1910	Quality Assurance	OSD	May be covered
620	Licensed Practical Nurse	OSD	Covered	2010	Inventory Management	OSD	May be covered
621	Nursing Assistant	Army	Covered	2101	Transportation Specialist	OSD	May be covered
633	Physical Therapist	OSD	Covered	2130	Traffic Management	OSD	May be covered
642	Nuclear Medicine Technician	Army	Covered	2152	Air Traffic Control	Army	May be covered
644	Medical Technologist	Army	Covered	2210	IT Management	OSD	May be covered
645	Medical Technician	Army	Covered	8852	Aircraft Mechanic	Army	May be covered

TABLE 16. Army MCO Fill

Measure	Goal	FY 2020	FY 2021	FY 2022	Q1 FY 2023	Q2 FY 2023	Q3 FY 2023	Q4 FY 2023
Number of Army MCOs below 90% Fill	Fewer than 11	10	14	7	7	7	8	9*

*Q4 FY 2023 data is as of August 2023; data as of September 2023 not available by AFR publication date.

Objective 4.4.3: *Average Civilian fill time below 80 days.*

The ability of the Army to fill vacant positions quickly is imperative to ensure that we have people in the right jobs performing the right mission.

Performance Indicators: Table 17 displays the measure that serves as the performance indicator in determining progress toward meeting this objective.

- Measure 4.4.3.a: Average Civilian fill time (Source: Civilian Human Resources Agency Production Books).

Performance Results: The Army's current Civilian time to hire (TtH) stands at 96 days, 16 days above the OPM guidance of 80 days. Since FY 2019, the Army has ranged between 91 and 97 days. Army TtH at the macro-level can be complicated due to a complex hiring process, the necessity for numerous billets with security clearances, and a broad geographic area with many locations in remote area or markets with a small pool of potential employees. Policies and programs implemented over the past five years, to include the expanded use of DHAs and a concerted effort to reduce TtH, has had a positive impact, but work remains to be done to meet the OPM standard.

TABLE 17. Average Civilian Fill Time

Measure	Goal	FY 2020	FY 2021	FY 2022	Q1 FY 2023	Q2 FY 2023	Q3 FY 2023	Q4 FY 2023
Average Civilian Fill Time	Less than 80 days	83	86	91	93	85	97	96*

*Q4 FY 2023 data is as of August 2023; data as of September 2023 not available by AFR publication date

Audit Improvements

The Army GF continues to progress toward an audit opinion by investing in stronger internal controls, enhanced business processes, and improved accuracy and completeness of data. The Army GF achieved its highest ranking in the DoD's annual auditability report, graduating out of the bottom quartile for the first time. Army's GF also demonstrated its commitment to cybersecurity and protecting Army GF's information by closing high-priority audit findings related to User Access Controls, leading all other DoD services in closing IT-related NFRs. Finally, to speed progress in reaching audit goals in FY 2023, the Army GF modified its approach by implementing an Audit Acceleration Plan, an agile approach to audit remediation activities.

The plan features the following elements:

- Audit Acceleration Teams (AAT): cross-functional teams comprised of subject matter experts that quickly and continually assess a situation, develop plans, and align resources to take effective action as quickly as possible
- Technology Deployment Team (TDT): a technology-focused team working alongside the AATs to bring innovation (e.g., automation) forward to address business process improvements
- Command Process Task Forces (CPTFs): hand-selected Army units where AATs and the TDT field-test new controls, business processes, and technology improvements for validation and enterprise adoption
- Continuous Monitoring Program (CMP): provides authoritative guidance, standards, and leading practices to manage risk, sustain business processes, and centrally-test internal controls

Army established AATs in FY 2023 to focus on downgrading material weaknesses in four priority areas. These teams remediate high impact audit findings, align with the Secretary of Defense's audit priorities, and optimize Army resources. Key accomplishments for each AAT are found below:

FY 2023 Audit Acceleration Areas and Accomplishments:

General Equipment (GE)
Army GF developed a data monitoring dashboard to detect data errors for GE and validated $3 billion of aviation assets.

Real Property (RP)
Army GF validated key supporting documents and internal controls on site at four Army installations; identified occurrences of control non-compliance; and modified internal control approach and accountable systems data clean-up along with US Army Financial Management Command and Army Audit Agency.

Fund Balance with Treasury (FBwT)
The Army GF FBwT Audit Acceleration Team has established a clear plan of action to pursue Material Weakness Downgrade (MWD) in FY 2024, driven largely by Army taking leadership of audit response, communications, and remediation. In April 2023, Army assumed leadership of the BMAC from DFAS to take control over the prioritization of activities and provide more rigorous oversight. Army built a project plan around three priorities that will achieve MWD, including a strengthened control environment that is clearly explained in a process cycle memo, building compensating controls around the FBwT reconciliation to gain confidence in Treasury and general ledger reporting, and prioritizing the work to research and remediate aged undistributed balances.

> *"Through DFAS and Army's continued great partnership and hard work in FY23, we have closed several auditor Notice of Findings and Recommendations (NFRs) related to Army's Financial Statements. These NFR closures help improve the Army's Financial Statement control environment and auditability and made significant strides towards Army's goal to downgrade their Fund Balance with Treasury Material Weakness."*

MR. RICHARD DAVIS
Director, Defense Finance and Accounting Service - Indianapolis (DFAS-IN)

> *"Everything we accomplish during the year is the result of close collaboration with our partners at DFAS and USAFMCOM, along with support from commands across the Army."*

MS. MYRNA MEDINA
Director, Financial Operations and Accounting Oversight, ASA (FM&C)

Environmental and Disposal Liabilities (E&DL)

In addition to improvements to cost estimation methodology used to calculate the Army E&DL, the team identified misstated liabilities, positioning the Army for more accurate reporting moving forward. Army also conducted an end-to-end process review, identifying and clarifying sub-processes within the E&DL program to better manage data, integrate with other business cycles, such as PP&E, and defend the audit assertions.

Conclusion

Given the threats and challenges ahead, it is imperative the Army has a clear and coherent vision of where we want to be in the coming years. We must retain our overmatch against all potential adversaries and remain capable of accomplishing our mission in the future. The Army must continue to increase readiness, improve transformation and modernization, and increase capacity through effective reform. Readiness remains unequivocally our number one priority—it underpins everything the Army does. A 21st century modernization plan and concept of operations would be impossible to achieve under an obsolete 20th century bureaucracy. Therefore, the Army is implementing a series of reforms that will enable continuous advancements in readiness and define American land power for another generation. We have an opportunity to improve readiness and prepare for the future. However, building a professional Army takes time. To build readiness, Soldiers require specialized and sufficient training; modern, properly maintained equipment; sufficient quantities of the proper munitions; and stability. These efforts ensure that our Soldiers are ready for the missions of today, as well as for the unforeseen conflicts of tomorrow.

"American citizens entrust our Army with their hard-earned money, and we have the solemn responsibility to account for and report every taxpayer dollar spent to ensure our leaders at every echelon, can make the most agile and informed decisions over resources as they uphold their duty in building lethality and cohesive teams across our forces today, tomorrow, and into the future."

BRIGADIER GENERAL PAIGE JENNINGS
Commanding General, US Army Financial Management Command (USAFMCOM)

Soldiers sling-load an M777 howitzer onto an Army CH-47 Chinook. (U.S. Army photo by Army Sgt. Lilliana Magoon)

ANALYSIS OF FINANCIAL STATEMENTS – GENERAL FUND

Army prepares annual financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). The Army financial statements are subject to an independent audit to provide reasonable assurance they are free from material misstatements. Army management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The Army GF Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2022 to FY 2023. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

The Army Consolidated Balance Sheets present the amounts of future economic benefits owned or managed by Army (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Figure 10 shows the Army Assets Comparison as of September 30, 2023 and 2022. Total assets amounted to $326,251 million in FY 2023 and $311,504 million in FY 2022, a 4.7% increase. This increase is mainly attributable to the higher FY 2023 end of year Fund Balance with Treasury (FBWT), $23,950 million, reflecting the net amount of outstanding Ukraine supplemental appropriations received during FY 2023 (see Army GF, Combined Statements of Budgetary Resources). This was partially offset by lower net equipment balances ($8,348 million), largely reflecting incremental losses realized during the fiscal year.

FIGURE 10. Assets Comparison

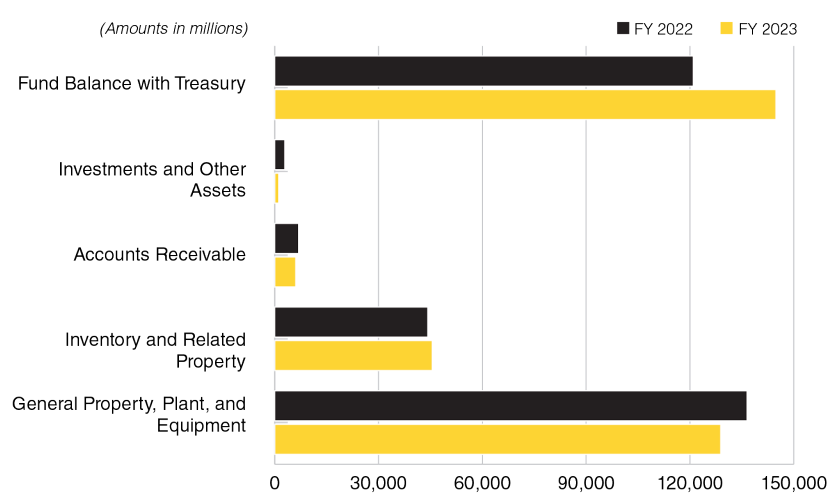
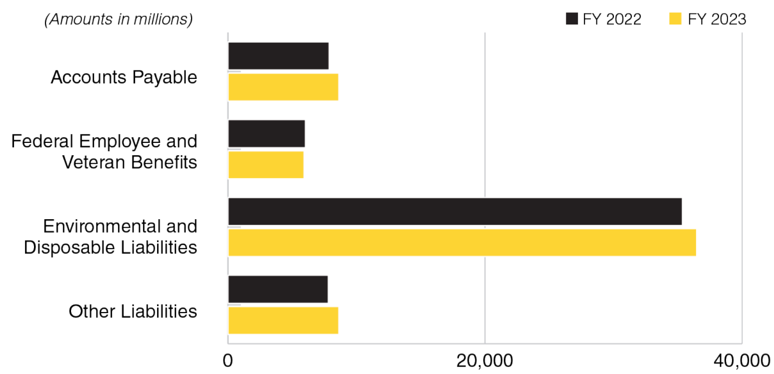


Figure 11 shows the Army Liabilities Comparison as of September 30, 2023 and 2022. Total liabilities amounted to $59,646 million in FY 2023 and $57,046 million in FY 2022, a 4.6% increase. This increase is primarily attributed to a $1.1 billion increase in estimated environmental and disposal liabilities, mainly due to incremental estimates related to accrued environmental restoration ($357 million, see Note 14 to the Army GF financial statements), chemical warfare material cleanup ($380 million) and base realignment and closure corrective action cost to complete updates ($307 million). Additional increases were realized within accounts payable, other than intragovernmental ($672 million) and in employment benefit related liabilities ($741 million, see Note 13 to the Army General Fund financial statements).

FIGURE 11. Liabilities Comparison



Consolidated Statements of Net Cost

The Consolidated Statements of Net Cost present the gross costs incurred by Army to conduct its operations less any exchange revenues earned from its activities.

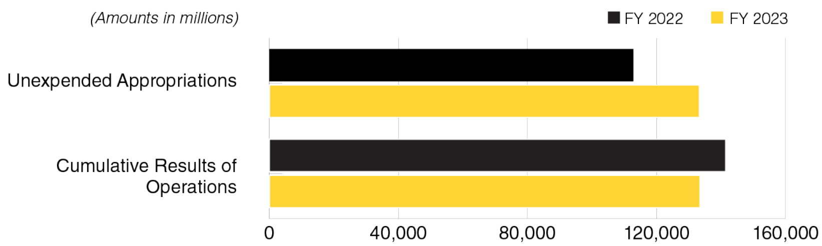
The major elements of the Consolidated Statements of Net Cost include program costs totaling $222,330 million in FY 2023 and $232,020 million in FY 2022 and earned revenues amounting to $30,053 million in FY 2023 and $53,378 million in FY 2022. These amounts are comprised of both intragovernmental and other than intragovernmental costs and revenues. Total net costs of operations increased by $13,635 million, or 7.6%. The overall decrease in revenues, $23,325 million, reflected the significant reduction in COVID-19 related support activity provided to the Department of Health and Human Services and the US Agency of International Development in the distribution of vaccines and other medicines and supplies, and which more than offset the reduction in related expenses during the year.

Consolidated Statements of Changes in Net Position

The Consolidated Statements of Changes in Net Position present those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenues, such as donations and forfeitures of property and imputed financing from costs absorbed by other federal agencies. Army net cost of operations and appropriations used reduce net position.

Figure 12 shows the two primary components of the Army net position for FY 2023 and FY 2022. Total net position amounted to $266,605 million in FY 2023 and $254,458 million in FY 2022, a 4.8% increase. The increase is largely attributable to increases in unexpended appropriations ($20,466 million), reflecting higher appropriations received versus FY 2022 ($13,111 million) and in net appropriations transferred in ($8,829 million), offset in part by net cost of operations ($13,635 million) and appropriations used ($7,905 million), in addition to higher net transfers and losses recognized during the year ($6,028 million), which also reduced net position.

FIGURE 12. Net Position

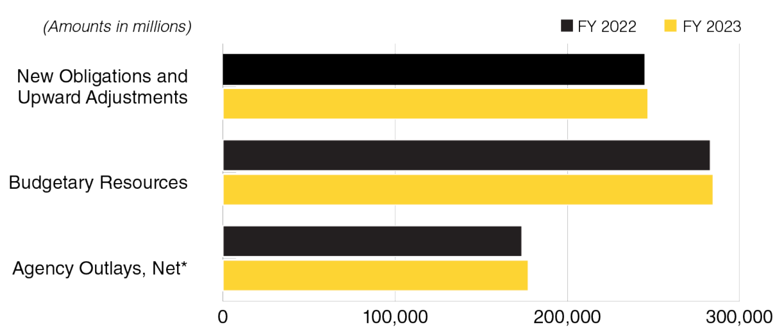


Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Army for the fiscal years ended September 30, 2023 and 2022, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments result from an order placed, contracts awarded, or similar transactions, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by the Department of the Treasury for Army obligations.

Figure 13 shows a comparison of budget authority, new obligations and upward adjustments and gross outlays in FY 2023 and FY 2022. The reported total Army budget authority was $284,729 million and $283,086 million as of September 30, 2023 and 2022, respectively, a 0.6% increase. New obligations and upward adjustments amounted to $246,861 million as of September 30, 2023 and $244,866 million as of September 30, 2022, a 0.8% increase. Net outlays amounted to $177,375 million in FY 2023 and $173,622 million as of September 30, 2023, a 2.2% increase. The overall increase in authority reflects incremental appropriations and recoveries of prior year obligations totaling $31.8 billion, partially offset by reductions totaling $30.2 billion in spending authority from offsetting collections realized by Army GF during the year, again to a large extent reflecting lower realized COVID-19 support activity during FY 2023 (see Consolidated Balance Sheets above).

FIGURE 13. Budgetary Resources



*net of Distributed Offsetting Receipts, see Combined Statements of Budgetary Resources (unaudited) on page 63

MANAGEMENT'S DISCUSSION AND ANALYSIS

A service member supports the Boy Scouts of America's 2023 National Jamboree. (Photo by Army National Guard Edwin L. Wriston)

A READY ARMY

ACCOMPLISHING ARMY **CORE MISSIONS**
FOCUSING ON **FUNDAMENTALS**

ARMY WORKING CAPITAL FUND OVERVIEW

An AH-64 helicopter repairer inspects an Apache helicopter during an exercise. (U.S. Army photo by Army Sgt. Maria Henderson)

The *National Security Act of 1947* (Public Law 81-216) authorized the creation of working capital funds to more effectively control and account for the cost of programs and work performed in the Department of Defense (DoD). In Fiscal Year (FY) 1992, the Congress established the Defense Business Operating Fund (DBOF), combining all of the DoD working capital fund activities. In FY 1997, the DBOF became the Defense Working Capital Fund (WCF). The Army WCF is one of the five primary WCFs within the Defense WCF. The Army WCF is indicated by fund citation (97X4930.001). The Army WCF operates numerous commercial-like and industrial facilities that provide essential services and support for readiness and sustainability of the warfighting forces.

The Army WCF includes two activity groups: Supply Management Activity (SMA) and Industrial Operations (IO). As with all Defense WCFs it operates under a revolving fund concept, i.e., relying on revenue from sales to finance operations rather than submitting a budget proposal for direct appropriations from Congress. The basic tenet of the revolving fund structure is to create a customer-provider relationship between military operating units and support organizations. This relationship is designed to make managers of the Army WCF and decision makers at all levels more aware of costs for goods and services. Unlike profit oriented commercial businesses, the revolving fund's goal is to break even over the long term by returning any monetary gains to appropriated fund customers through lower rates or collecting any monetary losses from customers through higher rates. Revolving fund prices are generally stable during the year of execution to protect customers from unforeseen fluctuations that would impact their ability to execute the programs approved by Congress.

The Army WCF is primarily used to help the Army maintain readiness by providing supplies, equipment, and ordnance necessary to support the projection and sustainment of its forces in the most efficient and cost-effective manner possible. To carry out this mission, Army WCF activities [part of the U.S. Army Materiel Command (AMC)] must control and reduce costs. In addition, the activities must maintain their capability to quickly ramp up from peacetime workload levels to meet wartime requirements.

Appropriated Funds

The Army WCF operates without significant direct appropriations; therefore, operations generally have no fiscal year limitation on obligating funds. The Army may request direct appropriations to maintain capacity and capability to meet mobilization and wartime surge requirements. This enables stable and competitive rates for its peacetime customers. For FY 2023, the Army WCF received appropriations of $144.9 million. For FY 2022, the Army WCF received appropriations and balance transfers of almost $499.7 million.

(Dollars in Millions)	FY 2023	FY 2022
Appropriated Funds	$144.9	$499.7

Revenues, Expenses, Accumulated and Net Operating Results (AOR and NOR)

The Army WCF incurs expenses and generates revenues from the sale of goods and the provision of services for a fee. The Army WCF is a big business, with an FY 2023 gross revenue totaling about $14.8 billion. Most of the revenue comes from sales to Army and Defense Department customers. To compare Army WCF revenue to private sector firms, its revenue approximates the revenues of recognizable brands like W.W. Grainger, Inc. and O'Reilly Automotive, Inc. (*Fortune 500 list – 2023 as of 10/2023. Revenues in billions*):

258	AutoZone, Inc.	$16.3
265	The Gap, Inc.	$15.6
267	Nordstrom, Inc.	$15.5
272	W.W. Grainger, Inc.	$15.2
287	O' Reilly Automotive, Inc.	$14.4
291	Tractor Supply Co.	$14.2
308	Carvana Co.	$13.6

Net Operating Result (NOR)

The NOR measures the activity's net cost of operations within a single fiscal year and is used to monitor how closely the activity performs compared to its budget.

The Army WCF financial statements do not explicitly include the AOR or NOR. Both results are part of the Monthly Accounting Report (AR) 1307 Statement of Operations. This statement discloses the results of the entity's operations for the reporting period, including the changes in its net position from the end of the prior reporting period.

Accumulated Operating Result (AOR)

The AOR measures the activity's accumulated annual net operating results since the fund's inception. Rates are set during budget development with the intent for the fund to break even over the long term. Specifically, rates are set to:

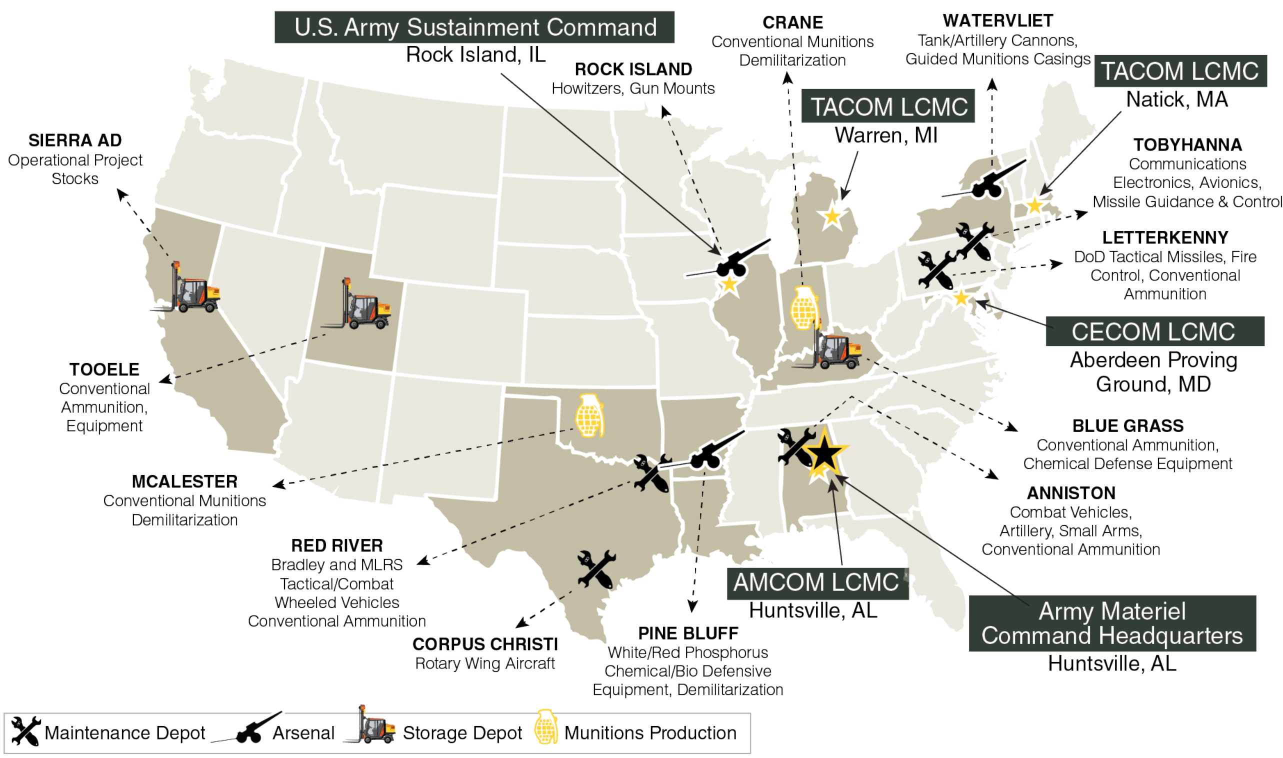
- Recover the activity's costs such as payroll, supplies, contracts, equipment, inventory, depreciation, and maintenance; and
- Maintain sufficient cash corpus to cover operating disbursements and six months of capital disbursements.

See the *Performance Goals* section for additional discussion on the AOR and NOR.

Army Materiel Command

The AMC, headquartered at Redstone Arsenal in Huntsville, AL serves as the major command for Army logistics operations. The AMC is the Army's materiel integrator and the premier provider of materiel readiness – technology, acquisition support, materiel development logistics power projection and sustainment – to the total force, across the spectrum of joint military operations. AMC executes the Army WCF through two activity groups: IO and SMA. The IO activity includes the financial activity of the 13 government-owned, government-operated depots, arsenals, and ammunition plants. The SMA includes the financial activity for managing spare parts. Other commands and activities outside of these two business areas are funded by non-Army WCF sources. Figure 1 displays the Army WCF activities within AMC.

FIGURE 1: Army Materiel Command Army Working Capital Fund Activities



Business Approach

The AMC is responsible for following the budgetary guidelines under which the Army WCF operates. The budgetary guidelines require incurring operating costs and collecting customer fees while budgeting to achieve zero accumulated operating results at the end of the budget period, unless otherwise approved by the Office of the Under Secretary of Defense (Comptroller). To achieve this goal, the Army WCF activities set stabilized rates prior to the beginning of each fiscal year. These rates are based on forecasts of potential workload (revenue) and the cost of meeting workload requirements (expenses). Stabilized rates equate to set unit prices for goods and set unit funded costs for services.

The Army financial statements covering Army WCF reflects the operations of two activity groups, SMA and IO, which are critical to Army equipment and materiel readiness.

Supply Management Activity

The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The activity group is committed to supporting and building readiness for present and future challenges. The Army's equipment and operational readiness, and the strength to win the Nation's wars, are directly linked to the availability of equipment and materiel. The SMA administers spare parts inventory for Army managed items, Non-Army Managed Items (NAMI) and war reserve secondary items (WRSI). It also maintains a protected inventory of spares in Army Prepositioned Stocks

Army National Guardsmen secure and prepare an M119 howitzer for sling-load operations. (Photo by Master Sgt. Scott Thompson, National Guard)

(APS), which is released to support deploying combat units. The Life Cycle Management Commands assigned to the AMC manage the SMA, which consists of four major commodity groups:

- Aviation and missiles
- Communications-electronics
- Tank-automotive and armaments
- Non-Army managed items

The war reserve stocks contain materiel from all commodity groups. As new equipment is added to the Army's operational and training forces, new spare parts are also scheduled for inclusion in the Supply Management inventory.

The SMA manages stocks of materiel for sale to Army operating units and to other DoD customers. The materiel purchased and maintained depends on the area of materiel support at the various command locations. The Army's equipment and operational readiness, and its combat capability, are directly dependent on the timely availability of this materiel.

SMA group is committed to meeting the readiness needs of soldiers by ensuring supplies and equipment are available when and where needed during peace and war time. The supplies and equipment include spares, repair parts, and major items within any of the four commodity lines. NAMI are those items not managed by the Army, but rather supplied by the Defense Logistics Agency (DLA) and the General Services Administration (GSA).

Industrial Operations

The IO activity group provides the Army an organic industrial capability to conduct depot level maintenance, repair, and upgrade; manufacture munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DoD. IO is comprised of thirteen government owned and operated installation activities, each with unique core competencies. These include five maintenance depots, three arsenals, two munitions production facilities, and three storage sites. Although comprised of diverse organic industrial capabilities, the preponderance of workload and associated estimates in the IO budget submission relate to depot level maintenance, repair, and upgrade. The complex operational environment continues to place tremendous demands on equipment, resulting in higher usage rates than during routine peacetime operations.

The IO activity group provides the equipment and ordnance necessary to project, sustain, and reconstitute forces as required to satisfy the peace and wartime needs of the DoD. The IO activity provides the Army and DoD with the industrial capability to:

- Perform depot-level maintenance, repair, and modernization of weapon systems and component parts,

- Manufacture, renovate, and demilitarize materiel,
- Produce quality munitions and large caliber weapons,
- Perform a full range of ammunition maintenance services for the DoD and U.S. Allies,
- Perform ammunition receipt, store, and issue functions, and
- Provide installation base support to mission elements and tenant activities.

For its activities, IO both competes and partners with the private sector to ensure its goods and services are delivered efficiently and effectively. IO activities are set up by commodity/service function.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – WORKING CAPITAL FUND

The AMC strategic plan builds upon the Army's Strategic Readiness priority. While many of the AMC strategic activity results are reported as part of Army-wide metrics, the section below discusses Strategic Plan Measures and results as they relate directly to the Army's Working Capital funded activities' achievements.

Operational Measures and Results

NET OPERATING RESULTS AND ACCUMULATED OPERATING RESULTS

The NOR represents the difference between revenues and costs within a fiscal year. The AOR represents the aggregate of all recoverable and non-recoverable net earnings, including prior-year adjustments, since inception of the Army WCF. The goal of the Army WCF is to establish rates that will bring the AOR to zero in the budget year. An activity group's financial performance is measured by comparing actual results to the budget's NOR and AOR. The AOR and NOR do not agree to the Statements of Net Cost and Changes in Net Position because they exclude certain transactions that are included in the financial statements.

TABLE 1. Net and Accumulated Operating Results by Activity Group

(Amount in Millions)	FY 2021	FY 2022	FY 2023
Industrial Operations NOR	(261.0)	(517.5)	(71.1)
Supply Management NOR	878.7	1,676.8	708.5
Combined NOR	617.7	1,159.3	637.4
Industrial Operations AOR	(1,785.8)	(2,300.6)	(2,368.4)
Supply Management AOR	18,650.8	20,324.9	21,033.4
Combined AOR	16,865.0	18,024.3	18,665.0

Sources:
1) NOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.1.d & B.2.d).
2) AOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.4.).

Strategic Plan Measures and Results

STRATEGIC PRIORITY: STRATEGIC READINESS

The Army Working Capital Fund supports the Army's vision to sustain and maintain a scalable, ready, and modern force, recapitalize combat equipment, and reset assets to equip a robust, ready, regionally engaged, and responsive force structure. This effort is in direct support of materiel readiness for operating units.

Strategic Readiness

Performance Goal: *Operational Readiness*

Operational Readiness is the capability and capacity of The U.S. Army to conduct the full range of military operations. The AMC, through the Organic Industrial Base (OIB), provides the materiel necessary for acceptable levels of Operational Readiness.

Objective 1.1: *Performance to Promise (P2P)*

Performance to Promise is AMC's commitment to providing support throughout the entire life cycle of an item and is required to assure that materiel can be maintained in its operational environment with minimum resources for achieving operational readiness and sustainability.

Performance Indicator (metric): The Cumulative Performance to Promise Metric illustrates the Army's ability to meet customer requirements by assessing monthly command schedule performance goals. AMC has set a goal to pursue a P2P goal of 100%, indicating expected performance within established timelines.

Performance Results: The below table displays the IO activity group's ability to meet performance requirements within the required time period throughout the fiscal year. While IO met requirements within the planned timeframe more than 90% of the time, IO does not accept the status quo and continues to make improvements through organization culture changes and process improvements. In FY 2023, Army WCF supported a Presidential Determination, an official policy or position issued by the White House, that required adjustments to IO's planned execution schedule. IO remains committed to improving planning and execution processes that result in quality products.

TABLE 2. Cumulative Performance to Promise: All Plants

	Oct22	Nov22	Dec22	Jan23	Feb23	Mar23	Apr23	May23	Jun23	Jul23	Aug23	Sep23
Met	742	763	861	936	1011	1,115	1,126	1,136	1,123	1,125	1,131	1,052
Not Met	36	28	36	39	39	40	38	50	43	56	54	107
Sum	778	791	897	975	1050	1,155	1,164	1,186	1,166	1,181	1,185	1,159
Percent	95%	96%	96%	96%	96%	97%	97%	96%	96%	95%	95%	91%

The Commanding General of AMC pursues a P2P goal of 100%.
Met: Requirement completed within the planned time period.
Not Met: Requirement not completed within the planned time period.
Percent: The percentage of instances when the OIB meets customer requirements for the time period indicated.

Objective 1.2: *Supply Availability*

Supply Availability (SA) is the measure of the depth and breadth of inventory required to meet tactical units' demands across the full range of military operations. The goal is to release orders within the month they are required based on the Required Delivery Date (RDD). SA fill rate is the percentage of orders released out of the total due for the month.

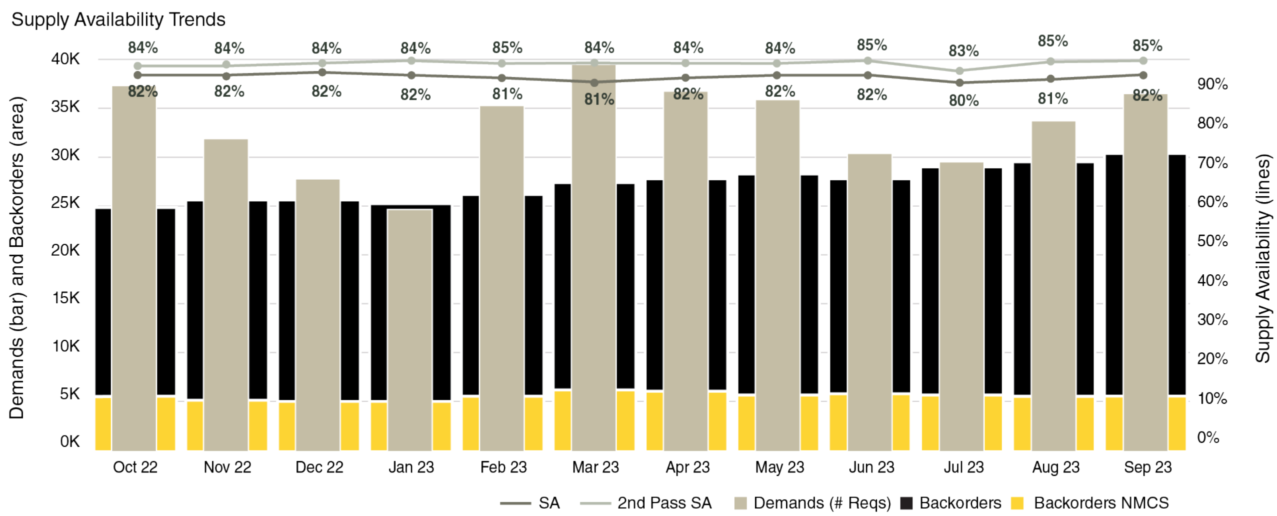
AMC, through its SMA team, leverages this key metric as one the primary indicators for supply operations performance to ensure critical supplies necessary in sustaining equipment and soldier readiness are available across the spectrum of military operations.

Performance Indicator (metric): Supply availability and equipment readiness are the foundation of materiel readiness, ensuring Soldiers and units have the right equipment, parts and materiel to achieve their mission -- anytime, anyplace. Life Cycle Management Commands (LCMC) are responsible for ensuring inventory levels are sustained with sufficient material to meet current and contingency operations. The SA metric is a monthly measure that highlights the Army's ability to fill operational requirements contributing to readiness. Material backorders are closely monitored as part of supply availability as they could have a negative impact to equipment readiness. (As an example, if a material is required and not available because it is backordered, equipment may become non-mission capable for a period of time impacting training or other operational activity.)

Performance Results: The table below shows SA and Backorders in relationship with demand during FY 2023. While the Office of the Secretary of Defense has established an SA goal of 85%, AMC leadership has challenged LCMCs with a target SA rate of 92% for materials considered readiness drivers. While the LCMC's have met this goal in prior years, several factors have contributed to their ability to do so during FY 2023. With the requirement to reduce cost in FY 2023 coupled with increased demands due to European operations and increased training activity, Army WCF depleted inventory at a faster rate than projected.

As a result, by the end of FY 2023, SA dipped down to 82% while backorders have doubled. The table also provides supply availability and a count of outstanding backorders associated with a "Not Mission Capable Supply" (NMCS) condition. These NMCS backorders can prevent a weapon system from preforming its mission or cause delays in maintenance. Army WCF continues to respond to changes in operations while working with vendors and depots to expedite deliveries to meet these demands.

FIGURE 2: Supply Availability (SA) (Percentage)



Audit Improvements

The Army WCF continues to progress toward an audit opinion with improved controls, increased accuracy and completeness of data, and enhanced ability to respond to auditor requests. During FY 2023, the Army WCF continued its focus on the Secretary of Defense's audit priorities, material weaknesses, and compliance with regulatory standards across priority areas. Remediating problems in these areas will not only help the Army WCF produce accurate and reliable financial statements but will also improve operations and readiness.

The Army WCF took many great steps in FY 2023 to improve financial management accuracy and procedural compliance, which include the following:

FUND BALANCE WITH TREASURY

The Army WCF and its service provider, the Defense Finance and Accounting Service (DFAS), also made significant progress on reconciling the Army WCF Fund Balance with Treasury (FBwT). The Army WCF transitioned to DoD's big data platform for advance analytics, ADVANA, which supported the reconciliation of LMP data to Treasury data and allowed for improved research and variance categorization using workflow capabilities. As a result, Army WCF and DFAS made great strides in reducing the Aged Undistributed Balances. In addition, the Army WCF in partnership with DFAS established risk assessments around FBwT allowing for a supported assertion that there is not a risk of material misstatement in reported balances. These efforts led to the auditor's downgrade of the FBwT material weakness, a significant accomplishment for the Army WCF.

GENERAL LEDGER ADJUSTMENTS

The Army WCF continued development of Logistics Modernization Program (LMP) Business Event Mapping (BEM), which allows for identification and alignment of systematic transactions to business processes. Utilizing the LMP BEM will allow the Army WCF to capture the material percentage of manually posted General Ledger adjustments and demonstrate their supportability through enhanced controls and redesigned business processes once completed. These processes will enhance management's oversight and will position the Army WCF to withstand audit scrutiny in these areas.

ENVIRONMENTAL AND DISPOSAL LIABILITIES (ED&L)

The Army WCF worked to remediate issues surrounding General Equipment E&DL. For the first time, Army WCF is reporting a liability and related expense for equipment related E&DL. In addition, Army WCF developed and documented processes around both the liability estimation and reporting requirements.

GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E)

The Army WCF made great strides towards addressing the material weaknesses for Real Property and General Equipment. Extensive testing related to the existence and completeness of the Army WCF's PP&E took place during the year along with all-inclusive reviews of the related supporting documentation. In addition, there was a comprehensive analysis of the Army WCF's Construction-in-Progress balances resulting in increased accuracy and auditability. Lastly, the Army WCF was able to identify activities driving changes in the PP&E balance with supported details to ensure accurate financial reporting.

ACCRUALS

The Army WCF successfully implemented a tool to establish accruals for cost incurred that were not initially being recorded at its LCMCs, depots and arsenals in FY 2023. Targeted monitoring procedures at the headquarters level were incorporated to help specifically identify which operating expenses required accruals. These procedures coupled with internal training initiatives have enhanced processes and strengthened internal controls in this area.

SYSTEMIC RECONCILIATIONS

The Army WCF made significant progress during FY 2023 towards addressing conditions identified in the completeness material weakness by establishing data feeds to ADVANA, building 27 material ADVANA reconciliations, and developing procedures for each reconciliation. This effort improves the Army WCF's ability to support completeness and accuracy assertions around financial data.

Possible Future Effects of Existing Condition and Financial Demands

Today's geopolitical environment has increased the risk of major contingency efforts across multiple domains. Operations financed by the Army WCF are critical to providing supplies, materiel, and services that promote readiness for current and future contingencies. As Army continues to invest in readiness, the Army WCF business activities may expand investment in modernization efforts to achieve greater future capability and capacity. Efforts to modernize Army WCF business activities will look across the enterprise to address its doctrine, organization, training, materiel, leadership and education, personnel, and facilities.

ANALYSIS OF FINANCIAL STATEMENTS – WORKING CAPITAL FUND

Army WCF prepares annual financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). Army management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

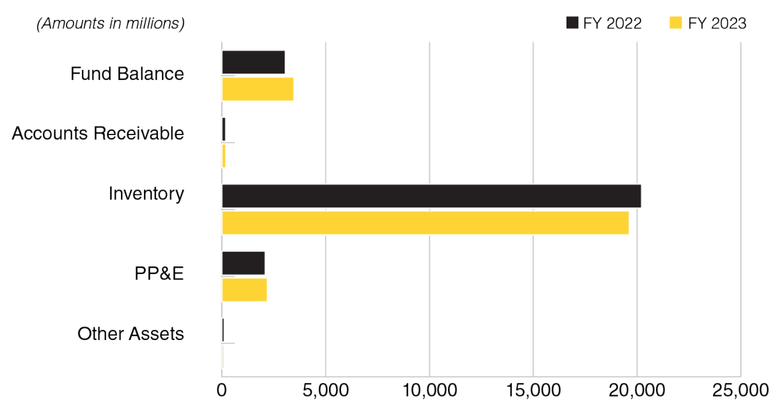
The Army WCF Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army WCF, pursuant to the requirements of the *Chief Financial Officers (CFO) Act of 1990* and the *Government Management Reform Act of 1994*. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2022 to FY 2023. The charts presented in this analysis are “in millions” unless otherwise noted.

Consolidated Balance Sheets

The Army WCF Consolidated Balance Sheets present probable future economic benefits obtained or controlled by the Army WCF (Assets), claims against those Assets (Liabilities), and the difference between them (Net Position).

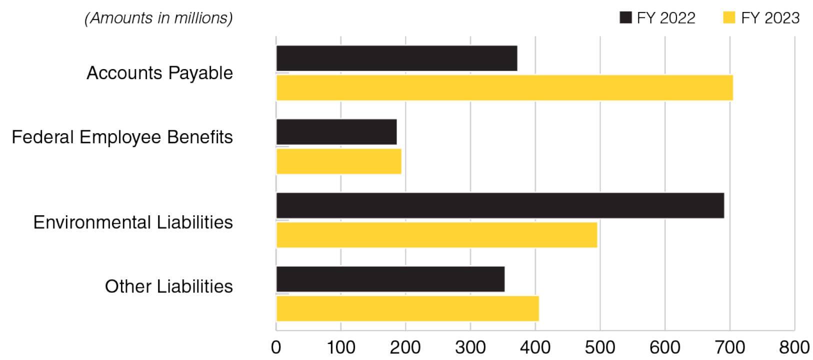
Figure 3 shows the Army WCF Assets comparison as of FYs 2023 and 2022. Total assets were $25,647 million at the end of FY 2023, while $25,657 million in total assets were reported at the end of FY 2022, a nearly $10 million decrease. This change was largely impacted by increases in both FBwT and PP&E, $411 million and $114 million, respectively. These increases were offset by a $519 million reduction in the Army WCF’s inventory and a $15 million reduction in Advances and Prepayments. These variances are consistent with the increase in customer requirements and the stabilization of operations.

FIGURE 3. Assets Comparison



Liabilities totaled $1,803 million as of the end of FY 2023, a $197 million increase since FY 2022 when $1,606 million in liabilities were reported. This increase was largely driven by the more than $332 million dollar increase in the Army WCF’s accounts payable which is reflective of the Army WCF’s overall increase in costs associated with meeting increased customer demands. The accounts payable increase is offset by a $196 million reduction in the Army WCF’s environmental and disposal liability (E&DL), which resulted from changes in estimating the E&DL and the removal of open burn/open detonation sites from the estimate. Figure 4 shows the breakout of the Army WCF’s liabilities as of the end of FYs 2023 and 2022.

FIGURE 4. Liabilities Comparison



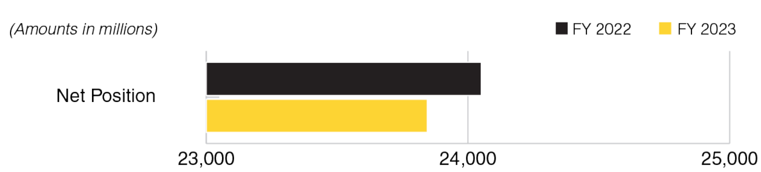
Consolidated Statements of Net Cost

The Consolidated Statements of Net Cost present the gross cost incurred by the Army WCF to conduct its operations less any exchange revenues earned from its activities. The major elements of the Consolidated Statements of Net Cost include program costs totaling $14,933 million in FY 2023. These costs were offset by earned revenues of $14,801 million, resulting in $132 million net cost from operations. During FY 2022, the Army WCF reported almost $750 million in net revenue. The $882 million increase in net cost is directly related to stabilization in operations and increases in customer requirements in FY 2023 for both the SMA and IO.

Consolidated Statements of Changes in Net Position

The Consolidated Statements of Changes in Net Position present the change in net position during the reporting period. The Army WCF's net position is impacted by both the results of operations and receiving or providing other financing sources which include appropriations. The Army WCF's net position decreased by $207 million during FY 2023 and increased $1,344 million during FY 2022. Total net position was $23,844 million in FY 2023 and $24,051 million in FY 2022. The Army WCF's $207 million reduction in Net Position was largely impacted by net transfers. This includes $569 million in transfers out of spending authority offset by net transfers in of $145 million in appropriations and $156 million in PP&E and inventory. Figure 5 shows the Army WCF's Net Position for FY 2023 and FY 2022.

FIGURE 5. Net Position

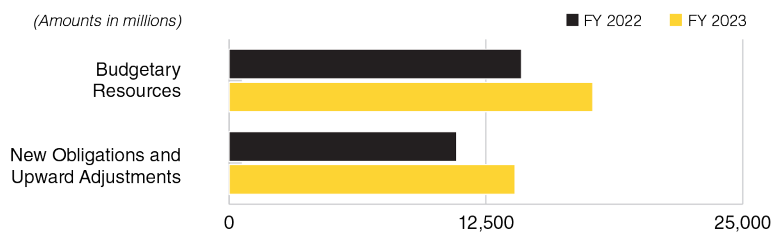


Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources provide information related to the budgetary resources that were made available to the Army WCF as of FY 2023 and FY 2022, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments result from orders placed, contracts awarded, or similar transactions. Gross outlays reflect the actual cash disbursed for Army obligations.

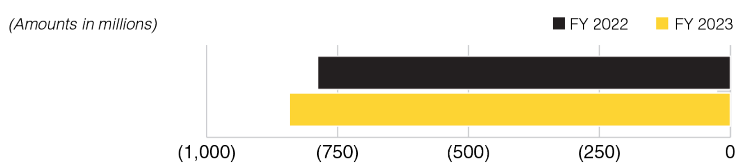
Figure 6 shows a comparison of budget authority and new obligations and upward adjustments in FY 2022 and FY 2023. The total Army WCF budget authority was $17,715 million and $14,235 million for FYs 2023 and 2022, respectively. The almost $3,480 million increase in budget authority is a direct reflection of the Army WCF's increased operations for both supply and maintenance requirements.

FIGURE 6. Budgetary Resources



The Statement of Budgetary Resources reflects the Army WCF's Net Outlays, which are gross outlays net of offsetting collections. Figure 7 presents a year to year comparison of net outlays which totaled ($842) million and ($788) million in net receipts during FY 2023 and FY 2022, respectively. The $55 million increase in net receipts is largely influenced by increases in customer collections during the fiscal year.

FIGURE 7. Net Outlays



“We appreciate the tremendous partnership we have with the Army in supporting their audit objectives, specifically their Working Capital Fund Balance with Treasury material weakness downgrade efforts and retiring their legacy accounting system, SOMARDS. We couldn't achieve these significant milestones without collaboration and engagement between our two organizations.”

MS. PAMELA FRANCESCHI
Director, Defense Finance and Accounting Service - Columbus (DFAS-CO)

> *We talk about preparing for an audit and expect folks to get excited? Who on earth looks forward to an audit? Let's instead talk about improving inventory tracking-critical to being able to deliver ready combat power-now we have your attention. Soldiers and civilians at every echelon understand this concept because the focus is on the mission. By performing the fundamentals of their core missions, we would not have to prepare for audit, we would already be ready.*

MR. ROBERT COOK
Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller)

An Army CH-47 Chinook helicopter. (U.S. Army photo by Army Sgt. David Resnick)

A READY ARMY

ACCOMPLISHING ARMY CORE MISSIONS
FOCUSING ON FUNDAMENTALS

GENERAL FUND AND WORKING CAPITAL FUND MANAGEMENT ASSURANCES

Analysis of Systems, Controls and Legal Compliance

United States Department of the Army (Army) management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). The Army's Commanders and mangers conducted their assessment of risk and internal control in accordance with Appendix A of Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Green Book, GAO-14-704G, *Standards for Internal Control in the Federal Government,* to ensure the integrity of their reporting systems, programs, and operations annually. These requirements promote the production of reliable, timely, and accurate financial information through efficient and effective internal controls. Through effective internal controls, the Army improves its efficiency and operating effectiveness and enhances public confidence in its stewardship of public resources.

A soldier participates in downed aircraft recovery team training. (U.S. Army photo by Army Capt. Kyle Abraham)

The Army operates a robust Risk Management and Internal Control Program (formerly the Managers Internal Control Program) in compliance with OMB Circular A-123 to employ a comprehensive system of continuous evaluation of internal controls. The Army's program is fully integrated with functional program control assessments. The objectives of the Army's system of internal control are to provide reasonable assurance regarding:

- Effectiveness and efficiency of Army internal control operations
- Reliability of Army's financial and nonfinancial reporting
- Army's overall compliance with applicable laws and regulations; and
- Army's overall financial information systems' compliance with the FMFIA

Internal Controls Governance

The Deputy Assistant Secretary of the Army (DASA) for Financial Operations (FO), the DASA for Financial Information Management (FIM), and the Commanding General of the U.S. Army Financial Management Command (USAFMCOM) worked jointly to execute the Process Management and Compliance (PMC) program to successfully capture seven end-to-end financial processes across the Army General and Working Capital Funds that trigger a financial event impacting the general ledger and financial statements. The Army's financial business process standards are a roadmap that guide department of Army soldiers, civilians, contractors, and auditors through the process of how the Army performs its financial operations and creates a central source for the latest governance. The PMC mission is to improve and optimize Army standardized processes, both classified and unclassified, that pertain to finance policies, systems, and reporting requirements; provide end-to-end field implementation support for processes and deliver campaigns that improve readiness and establish a culture of audit success. The Army will leverage the documentation in the coming years to streamline testing efforts across the organization.

Internal Control Evaluation

In adherence to the Office of the Under Secretary of Defense (Comptroller) guidance, the Army reports levels of assurance over its internal controls in three distinct areas: Reporting, Operations, and Compliance.

Army's evaluation of internal controls extends to every responsibility and activity undertaken by Army and applies to program, administrative, and operational controls. Further, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, Army's statement of reasonable assurance is accordingly provided within the limits of this description.

During Fiscal Year (FY) 2023 each reporting organization was required to review their ICEP (internal control evaluation plan) to align with their Risk Assessment. Specifically, higher risk areas were monitored on a more frequent basis than lower risk areas. Testing is facilitated by the Department of the Army (DA) Form 11-2 and an internal control checklist with supporting documentation. Army Reporting Organizations conduct testing of the key processes listed on their ICEP facilitated by the DA Form 11-2. These forms are retained with evidence of the completed testing. Testing included identifying material key processes that were included in the risk assessments, developing test plans (with the consideration of nature, timing, and extent), selecting the testing method, executing testing of automated versus manual controls, and summarizing/analyzing the results.

FMFIA and OMB Circular No. A-123 Appendix A Compliance – Reporting

The Army conducted its assessment of the effectiveness of internal controls over reporting (including external financial reporting) in accordance with OMB Circular No. A-123. Appendix E, "Summary of Management's Approach to Internal Control Evaluation" to the Annual Statement of Assurance provides specific information on how the Army conducted this assessment in the "Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted" section. Based on the results of the assessment, the Army can provide a modified statement of assurance that internal controls over reporting were operating effectively, with the exception of the 23 material weaknesses reported in "Material Weaknesses and Significant Deficiencies" appendix of the Annual Statement of Assurance.

In addition to the 17 internal controls over financial reporting (ICOFR) material weaknesses for the Army General Fund (GF) and Working Capital Fund (WCF), there are two compliance material weaknesses and four operational material weaknesses for a total of 23 material weaknesses.

The Army is reporting 17 material weaknesses for ICOFR: 1) General Ledger Adjustments, 2) Accruals/Accounts Payable and Accounts Receivable, 3) Beginning Year Balances, 4) Completeness, 5) Evidential Matter, 6) Financial Reporting, 7) Fund Balance with Treasury, 8) Operating Materials and Supplies, 9) Property, Plant, and Equipment (PP&E) – Real Property, 10) PP&E – General Equipment, 11) Internal Use Software, 12) Inventory, 13) Revenue, 14) Environmental and

Disposal Liabilities, 15) Contingency Payment Audit Trails, 16) Accruals, and 17) Intra-governmental Transactions and Intra-entity Eliminations.

The Army is reporting four material weaknesses for internal controls over operations (ICO): 1) Entity-Level Controls, 2) Collection of Basic Allowance for Subsistence (BAS), 3) New Equipment in Transit Reporting, and 4) Mass Transit Benefit Program.

The Army is reporting two material weaknesses for internal controls over financial systems (ICOFS): 1) Information Technology Controls and 2) Logistics Modernization Program.

It is important to note that many of the areas between Army GF and Army WCF overlap and the Army is working to remediate these weaknesses, devising corrective action plans (CAPs) to tighten service provider oversight and internal controls over financial reporting and creating a governance board through the Business Mission Area Champion (BMAC) framework to aid in the implementation and sustainment of changes to business processes, systems, and internal controls. The Army continues to develop, implement, and validate CAPs in response to these changes.

FMFIA and OMB Circular No. A-123 Compliance – Operations

Also, in accordance with OMB Circular No. A-123 the Army conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No A-123, the GAO Green Book, and the FMFIA. Based on the results of the assessment, the Army can provide a modified statement of assurance, except for the four material weaknesses, that internal controls over operations were operating effectively.

Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance –

Compliance

The FFMIA as well as OMB Circular No. A-123, Appendix D, requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management system requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. Based on the results of this assessment, the Army can provide a modified statement of assurance, with the exception of the two material weaknesses reported, that internal controls over compliance were operating effectively.

Army paratroopers board a C-17 aircraft. (U.S. Army photo by Army Spc. Vincent Levelev)

SECTION 2A: Army General Fund Financial Section

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.), Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, and the U.S. generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

A READY **ARMY**
ACCOMPLISHING ARMY **CORE MISSIONS**
FOCUSING ON **FUNDAMENTALS**

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

November 8, 2023

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE ARMY, (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditor's Report on the Army General Fund Financial Statements and Related Notes for FY 2023 and FY 2022 (Project No. D2023-D000FI-0028.000, Report No. DODIG-2024-021)

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to audit the U.S. Department of the Army (Army) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2023, and 2022. The contract required KPMG to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the Army General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army General Fund Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army General Fund FY 2023 and FY 2022 Financial Statements and related notes.

KPMG's report, "Report on the Audit of the Consolidated Financial Statements," discusses 17 material weaknesses related to the Army General Fund's internal controls over financial reporting.* Specifically, KPMG's report stated that the Army did not:

- prepare complete and accurate populations for beginning balances;
- identify all key financial statement risks associated with accounting for and reporting Operating Materials and Supplies;
- provide a complete and accurate population and value of Real Property;
- provide a complete and accurate population and value of General Equipment;
- accurately estimate and verify asset-driven environmental and disposal liabilities;
- accurately estimate and verify event-driven environmental and disposal liabilities;
- ensure that sufficient supporting documentation was readily available to demonstrate balances and transactions were properly reported on the financial statements;
- ensure the effective design, implementation, and operation of financial information systems controls;
- demonstrate that manual journal entries to the general ledger were complete, accurate, and valid;
- accurately implement and document controls over unfilled customer orders, revenue, accounts receivable, and collections;
- accurately implement and document controls over undelivered orders, expenses, accounts payable, and disbursements;

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

- present information and make required disclosures in accordance with Generally Accepted Accounting Principles and prevent or detect and correct misstatements;

- ensure intragovernmental transactions and intra-entity eliminations were reconciled and recorded;

- design controls to identify, reconcile, and resolve Fund Balance with Treasury reconciliation variances;

- validate that financial information was completely and accurately transferred and reconciled between feeder system and financial statements, and reported in the financial statements;

- design and implement a risk management internal control program to include all risks and tolerances for enterprise responsibility controls; or

- provide an entity-level control system to produce reliable financial reporting.

KPMG's report, "Report on the Audit of the Consolidated Financial Statements," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, KPMG's report describes instances in which Army's financial systems did not substantially comply with the Federal Financial Management Improvement Act of 1996 and the Federal Manager's Financial Integrity Act requirements of 1982.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed them with KPMG's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Army General Fund FY 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 8, 2023 report and the conclusions expressed within the report.

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

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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

Attachment:
As stated

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary of the Army and
Inspector General of the Department of Defense:

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of the United States (U.S.) Department of the Army (Army) General Fund (GF), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net costs, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

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

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements. Additionally, management revalued a significant portion of general equipment during fiscal year 2020, using standard purchase price prior to the application of depreciation which is not in accordance with U.S. generally accepted accounting principles.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Annual Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Army GF consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards,* and OMB Bulletin No. 24-01, and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated 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 GAAS because management did not provide sufficient appropriate evidential matter. We do not express an opinion or provide any assurance on the information.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the Army GF's consolidated financial statements as of and for the year ended September 30, 2023, we considered the Army GF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army GF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Report on Compliance and Other Matters

In connection with our engagement to audit the Army GF's consolidated financial statements as of and for the year ended September 30, 2023, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01, and which is described in item A of the accompanying Exhibit II.

We also performed tests of the Army GF's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with

FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in item B of the accompanying Exhibit II, in which the Army GF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

United States Department of the Army General Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Army GF's response to the findings identified in our engagement and described in the accompanying Exhibit III. The Army GF's response was not subjected to the other auditing procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Army GF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 8, 2023

A. Beginning Year Balances

The United States (U.S.) Department of the Army (Army) General Fund (GF) management (management) and its service provider did not fully design and implement processes, policies, procedures and controls to prepare complete and accurate populations of transactions and adjustments for the beginning balances on the consolidated financial statements.

The above condition primarily resulted because management and its service provider did not develop and maintain documentation of its internal control system, design appropriate control activities in response to Army's risks and objectives, and complete and document corrective actions to remediate control deficiencies on a timely basis.

The criteria is Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*.

As a result of the deficiencies noted above, the potential exists that beginning year balances may be incomplete, inaccurate, or invalid and such misstatement would fail to be prevented, or detected and corrected in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with its service provider to perform, the following:

- Design and implement processes, policies, procedures, and controls to prepare complete and accurate populations at the transaction-level for beginning balances and reconcile such populations to the trial balance.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the consolidated financial statements.
- Focus resources on implementing corrective actions.
- Coordinate with system owners as needed to appropriately research and resolve configuration issues in the general ledger systems and implement corrective actions that enable providing complete and accurate population reports and transactional data.

B. Operating Materials and Supplies

Management did not consistently design, implement, and document controls over operating materials and supplies as follows:

- Management did not demonstrate the value of operating materials and supplies was properly reported at historical cost on the balance sheet. In addition, management applied the most recent standard purchase price to value operating materials and supplies at period end and did not use an appropriate cost flow assumption to arrive at historical cost.
- Management did not design and implement controls to accurately record transactions in the appropriate U.S. Standard General Ledger (USSGL) account in the correct accounting period, to produce populations of financial transactions, and to disclose all relevant information in accordance with the accounting standards.
- Management did not complete a risk assessment to validate risks associated with transactions affected by the change in accounting policy from the purchase to the consumption method of accounting. Further, management did not determine newly implemented processes and controls addressed the risks.
- Management did not design and implement policies and controls to ensure the excess, obsolete, and unserviceable population used is complete and accurate. Management did not design, implement, or document processes and controls (e.g., sensitivity analysis, lookback analysis, etc.) to assess the effect of estimation uncertainty. Additionally, management did not accurately disclose factors related to estimation uncertainty of costs to demilitarize assets.
- Management did not consistently design, implement, and effectively operate physical inventory controls across both the wholesale and retail control environments.
- Management did not consistently execute controls to validate that documentation for inventory transactions was readily available and that inventory was completely and accurately recorded in the accountable property system of record.
- Management did not consistently implement policies, procedures, and design controls to support rights and obligations (i.e., ownership) of assets.
- Management did not determine the appropriate accounting treatment for Work-In-Process munitions, and items held for repair or remanufacture.
- Management did not design and implement procedures and controls to verify underlying financial reporting documentation is reviewed and approved prior to recording in the general ledger.
- Management did not develop appropriate processes and related controls to provide complete and accurate data.
- Management did not design and implement a formal process to record data corrections in the accountable property system of record.
- Management did not complete a risk assessment to ensure risks associated with theater support activity locations are addressed. The frequency of physical inventory counts is not at the right level of precision to prevent, or detect and correct differences in a timely manner.

The above conditions primarily resulted because of the following:

- Management did not identify all key financial statement risks associated with accounting for and reporting operating materials and supplies.
- Management did not design or implement policies and procedures to address risks.
- Management did not ensure control operators were consistently aware of, properly trained on, and/or understand and comply with existing policies.

- Management did not monitor and evaluate the results of its internal controls or hold personnel accountable to ensure controls were operating effectively as designed.
- Management did not fully and/or timely implement corrective action plans to address deficiencies due to competing priorities.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Environment*
- Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) 3: *Accounting for Inventory and Related Property*, SFFAS 5: *Accounting for Liabilities of The Federal Government*, SFFAS 21: *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, Interpretation of Federal Financial Accounting Standards 7: *Items Held for Remanufacture*, Statement of Federal Financial Accounting Concept (SFFAC) 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, and SFFAC 7: *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*
- Office of Management and Budget (OMB) Circular Number (No.) A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular No. A-123)
- OMB Circular Number A-136: *Financial Reporting Requirements* (OMB Circular No. A-136)
- Treasury Financial Manual (TFM)
- U.S. Department of Defense (DoD) and Army standard operating procedures, regulations, policies, and guidance
- Federal Financial Management Improvement Act of 1996 (FFMIA)

As a result of deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform the following:

- Develop procedures to report the value of operating materials and supplies accurately on the balance sheet. Specifically, Army should complete valuing operating materials and supplies in accordance with SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, and design, implement, and document controls to calculate and capture historical costs and disclosure requirements in accordance with SFFAS 3: *Accounting for Inventory and Related Property*.
- Validate operating materials and supplies assets are completely and accurately reported. Validate and support that asset quantities and key data elements are properly recorded in the accountable property systems, transactions are reconciled and recorded properly in the financial system, transactions are recorded in the correct period and USSGL accounts, and documentation is maintained and readily available.
- Perform and document an assessment of the risks of misstatement in the financial reporting process and design and implement controls responsive to the risk assessment to completely and accurately reconcile, classify, and report all assets that meet the definition of Army owned operating materials and supplies as of the balance sheet date in the consolidated financial statements, and exclude assets not meeting the definition of operating materials and supplies from the financial records.

- Develop and distribute updated policies and guidance and provide training to control operators to consistently execute processes and controls as well as enforce and monitor that control operators are performing the controls as designed.
- Perform an analysis to identify transactions that did not post correctly and make updates as necessary. Also, develop policies and procedures for identifying the root cause of data errors, as well as for documenting, approving, and recording data corrections.
- Reiterate guidance to personnel performing inventory duties for handling exceptions such as when identifying information is either missing or unclear. Enforce compliance with policies and procedures.

C. Property, Plant and Equipment – Real Property

Management did not consistently design, implement, and document controls over real property, inclusive of land and heritage assets, as follows:

- Management did not provide sufficient appropriate documentation to demonstrate the valuation of real property was properly reported at historical cost on the balance sheet and related note disclosures.
- Management did not effectively design, implement, and document controls to verify real property, heritage asset, and land acreage data elements were supported, properly approved, and completely and accurately recorded in the property system in a timely manner.
- Management did not design and implement real property and heritage asset physical inventory processes to include verifying real property balances and heritage assets are complete and accurate.
- Management did not effectively design and implement controls over identifying and recording acquisitions and disposals and recording depreciation of real property and heritage asset acquisitions. In addition, management did not design and implement adequate controls to record complete and accurate capitalized costs for real property and for costs associated with transferring assets.

The above conditions primarily resulted because of the following:

- Management did not define objectives, identify risks to achieving objectives and respond to risks by: designing and implementing appropriate types of control activities; documenting policies and controls; recruiting and developing personnel; communicating responsibilities, policies, procedures, and quality information to personnel; and monitoring controls to ensure they are operating effectively.
- Management did not identify and evaluate relevant information requirements and processing objectives to obtain relevant data from reliable internal and external sources in a timely manner.
- Management did not complete, document, and monitor corrective actions to remediate control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment* and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD *Financial Management Regulation* (FMR)
- DoD and Army policies, regulations, and instructions

As a result of deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform the following:

- Complete the process of valuing opening balances of real property in accordance with SFFAS No. 50, *Establishing Opening Balances for General, Property, Plant and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, including updating policies to define what constitutes key supporting documentation for the consistent and accurate reporting of the valuation of real property, communicate the policies throughout the Army, and establish and implement controls to maintain sufficient appropriate supporting documentation to demonstrate that the valuation of real property is properly reported on the balance sheet.

- Timely monitor and update the property system based on differences identified between the property system and inspection documents.
- Design, implement, and document controls to determine that the key data elements are timely and properly recorded in the property systems to identify and generate complete and accurate real property populations of acquisitions and disposals, to ensure proper valuation and completeness of real property, and to monitor the review and approval of heritage asset acquisitions and physical inventory inspections. Additionally, management should design, implement, and document controls to report ownership of real property assets in the context of financial reporting and retain all relevant supporting documentation to be readily accessible.
- Identify risks relevant to financial statement assertions for construction in process transactions including transfers. Design and implement policies, procedures, and controls to address the completeness, existence, and accuracy of capitalized costs at year end.

D. Property, Plant and Equipment – General Equipment

Management did not consistently design, implement, and document controls over general equipment, including internal use software, as follows:

- Management did not design and implement controls to verify that general equipment data elements were accurately recorded in the property system and to identify general equipment new acquisitions, dispositions, and unserviceable and condemned assets. Additionally, management did not provide sufficient appropriate documentation to demonstrate that controls were operating effectively over general equipment acquisitions, disposals, and cyclic inventories.
- Management did not effectively design and implement controls to produce complete and accurate populations of general equipment to be used for financial reporting, to include assets held by contractors.
- Management did not design and implement monitoring controls over cyclic inventory counts of general equipment stored at contractors' facilities. Management did not design and implement controls to isolate and remove obsolete/damaged capital assets issued for the remanufacturing process or excess defense articles for the foreign military sales program.
- Management did not provide sufficient appropriate documentation to demonstrate the valuation of general equipment and internal use software was property reported at historical cost or that the useful lives of general equipment are appropriate and supported. Management did not design and implement a valuation methodology to record general equipment at historical cost in accordance with SFFAS 6: *Accounting for Property, Plant, and Equipment,* and has not developed a process to fully consider the accounting treatment to determine that general equipment assets are completely and accurately recorded. The Army has designed policies and procedures to accumulate and monitor costs associated with internal use software, however Army has not fully or uniformly implemented these policies, and these policies do not include procedures to capitalize and report internal use software.
- Management did not effectively design and implement controls over general equipment including monitoring, completeness, adjustments, impairments, capital improvements, timely recording, and accumulating costs of construction-in-progress. Additionally, Army does not have a policy requiring commands to perform procedures over completeness of general equipment (i.e., floor-to-book procedures).
- Army's property systems do not interface with, and post individual equipment record transactions and balances directly to the general ledger, which is not in accordance with the FFMIA.
- Management did not properly disclose the funded deferred maintenance and repairs amounts in the Required Supplementary Information (RSI).

The above conditions primarily resulted because of the following:

- Management did not establish an oversight body to oversee the design, implementation, and operation of the entity's internal controls.
- Management did not communicate quality information down and across reporting lines, internally and externally, and define objectives, identify risks, and design responses to the analyzed risks.
- Management did not design and implement control activities through policies.
- Management did not identify and evaluate relevant information requirements and processing objectives to obtain relevant data from reliable internal and external sources in a timely manner.
- Management did not properly develop and maintain documentation of the entity's internal control systems.
- Management did not complete and document corrective actions to remediate control deficiencies on a timely basis.

- Management did not identify risks related to incomplete information being reported in the RSI section of the Army's Annual Financial Report (AFR).

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 4: *Managerial Cost Accounting Standards and Concepts*, SFFAS 6: *Accounting for Property, Plant, and Equipment*, SFFAS 10: *Accounting for Internal Use Software*, SFFAS 21: *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, SFFAS 42: *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*, SFFAS 44: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment*
- OMB Circular No. A-123
- OMB Circular No. A-136
- FFMIA
- DoD and Army policies, regulations, and instructions

As a result of deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform the following:

- Complete the process of valuing the opening balances of general equipment in accordance with SFFAS No. 50: *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23 and Rescinding SFFAS 35*, including updating policies to define what constitutes key supporting documentation for the consistent and accurate reporting of the valuation of general equipment and internal use software, communicating policies throughout the Army, and designing, implementing, and documenting controls, policies, and procedures to maintain sufficient appropriate supporting documentation over general equipment useful lives, internal use software, and the recording of complete and accurate capitalized costs to reduce risk points relevant to financial statement valuation assertion and to demonstrate that the valuation of general equipment is properly reported on the balance sheet.
- Update and monitor the operating effectiveness of control activities over the property system based on the discrepancies identified between the property system and the documentation, and implement controls over proper record retention, completeness, and timely entry of general equipment into the property systems.
- Identify risk points relevant to the completeness and accuracy of general equipment and based on those risks, design and implement policies, procedures, and control activities to ensure all general equipment assets are included in the property systems with accurate data elements. Such records should generate a complete and accurate capital asset report that is reconciled to the financial reporting system and accurately presents acquisitions, disposals, adjustments, and full impairment.
- Design and implement monitoring controls to require cyclic inventories and timely updates to property systems with accurate data elements of general equipment stored at contractors' facilities.
- Design and implement policies, procedures, and controls over general equipment costs related to construction-in-progress and capital improvements.

- Design and implement preventative controls to isolate and remove excess defense articles identified for the foreign military sales program, unserviceable and condemned assets, and duplicate equipment records.
- Implement policies, procedures, and relevant controls, in response to a complete risk assessment, to address completeness and accuracy of the entity's deferred maintenance and repairs RSI disclosures in accordance with OMB Circular No. A-136, SFFAS 42: *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, and DoD policies and procedures.

E. Environmental and Disposal Liabilities – Asset-Driven

Management did not consistently design, implement, and document policies, processes, and controls over asset-driven environmental and disposal liabilities to:

- Verify the completeness and accuracy of liability populations used to determine the asset-driven environmental and disposal liabilities and assess those assets within the general equipment asset group which require an associated environmental disposal liability.
- Perform reviews over the development and recording of asset-driven environmental and disposal liabilities to support complete and accurate estimates prior to submission of the quarterly financial reporting package; document the reasonableness of all assumptions, inputs, and calculations, how the supporting documentation was reviewed, how it was determined sufficient, and how conclusions were reached.
- Demonstrate that management's review of the quarterly reported asset-driven environmental and disposal liabilities estimates addresses management's assertions that the asset-driven environmental and disposal liabilities estimates are complete and accurate.
- Determine the completeness and accuracy of processes and information related to the asset-driven liability guidance, including the roll forward processes to identify and account for changes occurring through the financial reporting date.
- Perform complete retrospective reviews to address environmental and disposal liability estimation uncertainty, including assessing the reliability and reasonableness of the estimation process and resulting asset-driven estimates.
- Determine the relevance and reliability of the current cost estimating software, the underlying information within the cost estimating software, and the model used to develop asset-driven liability estimates.

The above conditions primarily resulted because of the following:

- Management did not effectively document controls and assign asset-driven environmental and disposal liabilities responsibilities, delegate authority to individuals, and establish and communicate such responsibilities to individuals. Additionally, management did not fully establish financial accounting controls or experience requirements for key environmental and disposal liability roles to help the entity achieve its financial control objectives and assign the appropriate individuals to such roles.
- Management did not identify risks, quality information, reliable data, and changes for asset-driven environmental and disposal liabilities and document procedures and design policies and controls to address such risks.
- Management did not review asset-driven environmental and disposal liabilities policies, procedures, data inputs, and controls for continued relevance and effectiveness in addressing financial statement risks.
- Management did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government* and *Cost Estimating and Assessment Guide*
- FASAB SFFAS 5: *Accounting for Liabilities of The Federal Government*, SFFAS 6: *Accounting for Property, Plant, and Equipment,* SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board,* Technical Release 11: *Implementation Guidance on Cleanup Costs Associated with Equipment*, and Technical Release 18: *Implementation Guidance for Establishing Opening Balances*
- DoD policies

As a result of the deficiencies noted above, the potential exists that controls and existing processes would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform the following:

- Complete comprehensive risk assessments to identify and analyze asset-driven environmental and disposal risks, quality information, reliable data, and changes and fully establish policies, procedures, and controls to address such risks. Additionally, assign responsibilities and authority, communicate responsibilities of control execution, monitor, and enforce performance of controls, and timely prioritize documentation and implementation of planned corrective actions.
- Design, document, and implement controls and processes to:
    - Perform reviews of the populations used to determine the asset-driven environmental disposal liabilities, specifically documenting who is responsible for completing review procedures, the review requirements, level of precision expectation for the data and assumptions, sufficiency of the estimate documentation, and timeline to complete the review.
    - Identify and determine the valuation methodology for estimating future environmental disposal costs for general equipment.
    - Determine that the asset-driven environmental and disposal guidance, cost estimate methodology, assumptions, inputs, calculations, and laws and regulations are complete, accurate, relevant and address the timing, preparation, and review requirements for roll forward procedures.
- Design and implement controls and processes to perform consistent reviews of estimate assumptions, inputs, and calculations for asset-driven liabilities that include a defined level of precision and require the reviewer to conclude if judgments and manually entered estimates are supported and accurate, and document details over the estimate reviewed and conclusions reached.
- Design, document, and implement procedures and controls over the review of the quarterly asset-driven environmental and disposal liability, specifically documenting the defined precision of management's review and supporting how conclusions were determined, timely validating the completeness and accuracy of populations received and used to calculate the reported liability estimate.
- Design, document, and implement controls over the retrospective review, estimation uncertainty, reliability of the estimation process, and reasonableness of estimates developed.
- Design and implement processes and controls over current cost estimation tools. Annually review verification support to determine the relevance of the cost estimating software and maintain documentation of how management determined the information within the cost estimating software is reliable.

F. Environmental and Disposal Liabilities – Event-Driven

Management did not consistently design, implement, and document policies, processes, and controls over event-driven environmental and disposal liabilities to:

- Verify the completeness and accuracy of liability populations used to determine the event-driven environmental and disposal liabilities.
- Perform reviews over the development and recording of event-driven environmental and disposal liabilities estimates, including review of certain estimate assumptions, inputs, and site calculations, to support the completeness and accuracy of the estimates prior to submission of the quarterly financial reporting package.
- Demonstrate that management's review of the quarterly reported event-driven environmental and disposal liabilities estimates address management's assertions that event-driven environmental and disposal liabilities estimates are complete and accurate.
- Perform complete retrospective reviews to address environmental and disposal liability estimation uncertainty, including assessing the reliability and reasonableness of the estimation process and resulting event-driven estimates.
- Review and approve newly identified event-driven environmental and disposal liabilities sites for timely recording and recognition of environmental and disposal liabilities in the fiscal year the site is identified.
- Determine the relevance and reliability of the current cost estimating software, the underlying information within the cost estimating software, and the model used to develop event-driven liability estimates.
- Determine the completeness and accuracy, including relevance and reliability of internal and external source data, of Program Management (PM) costs, and unliquidated obligations reported in event-driven environmental and disposal liabilities estimates.

The above conditions primarily resulted because of the following:

- Management did not effectively document controls and assign event-driven environmental and disposal liabilities responsibilities, delegate authority to individuals, and effectively establish and communicate such responsibilities to individuals. Additionally, management did not fully establish financial accounting controls and effectively develop competencies for personnel to help the entity achieve its financial control objectives and assign the appropriate individuals to such roles.
- Management did not identify risks, including risks related to quality information, reliable data, and changes for event-driven environmental and disposal liabilities and design policies and controls to address such risks.
- Management did not review event-driven environmental and disposal liabilities policies, procedures, data inputs, and controls for continued relevance and effectiveness in addressing financial statement risks.
- Management did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government* and *Cost Estimating and Assessment Guide*
- FASAB SFFAS 5: *Accounting for Liabilities of The Federal Government*, SFFAS 6: *Accounting for Property, Plant, and Equipment,* and Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*
- DoD policies
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls and existing processes would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform the following:

- Complete comprehensive risk assessments to identify and analyze quality information, reliable data, and changes for environmental and disposal liability risks. Fully establish and document policies, procedures, and controls to address risks.
- Communicate responsibilities of control execution, monitor, and enforce performance of controls, and timely prioritize documentation and implementation of planned corrective actions.
- Design, document, and implement controls and processes to:
    - Perform reviews of the event-driven populations, specifically documenting the review requirements and precision of the review, resolution of findings, and timeline to complete the review.
    - Develop the event-driven completeness methodology and implement policies and procedures to compile and retain the complete listing of event-driven sites.
- Enhance documentation and execution of existing controls over the review of individual estimate packages to support the completeness and accuracy of recorded estimates. Additionally, complete design and documentation of review procedures and controls over summary level quality control reports with evidence of timely review prior to submission of the quarterly financial reporting package.
- Design, document, and implement procedures and controls over the review of the quarterly event-driven environmental and disposal liability. Timely validate the completeness and accuracy of populations received and used to calculate the reported liability estimate. Document the defined precision of management's review and how conclusions were determined.
- Document the methodology for estimation uncertainty, including the design and implementation of related controls over the reliability of the estimation process and reasonableness of the estimates developed. Design and document risk assessment procedures, management's representative samples, retrospective review procedures, including acceptable thresholds, and consideration of possible cost adjustments.
- Design and implement controls to align and support existing policies over timely review and approval of newly identified event-driven liabilities.
- Design and implement processes and controls over current cost estimation tools. Annually review verification support to determine the relevance of the cost estimating software and maintain documentation of how management determined the information within the cost estimating software is reliable.
- Develop and document controls to verify the completeness and accuracy of unliquidated obligations and PM costs, including relevance and reliability of internal and external source data, reported in event-driven environmental and disposal liabilities.

G. Evidential Matter

Management and its service provider did not always have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for revenue, payroll and non-payroll costs, fund balance with treasury, general property, plant, and equipment, operating materials & supplies, environmental and disposal liabilities, other liabilities, and other transactions were properly reported on the consolidated financial statements. Management did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested:

(a) was not provided as it was not readily available or did not sufficiently support the request,

(b) did not sufficiently support transactions recorded in the general ledger used to prepare the consolidated financial statements, and/or

(c) was inappropriately reviewed and approved by management, or the review and approval was not documented.

Management and its service provider relied on information produced by the financial and feeder systems to support certain transactions and balances on the consolidated financial statements; however, management did not have effective information technology controls over such systems (discussed further in Condition H – Information Technology Controls), and therefore did not provide reliable evidential matter.

The above conditions primarily resulted because of the following:

- Management and its service provider did not identify, analyze, and respond to risks considering the effect on objectives.
- Management and its service provider did not determine appropriate roles, assign responsibilities, and communicate responsibilities for controls to personnel, hold individuals accountable for performing assigned responsibilities, or perform monitoring of design and operating effectiveness of controls.
- Management and its service provider did not design appropriate control types and activities in response to the entity's objectives or evaluate the level of precision needed for the operational processes to achieve an effective internal control system.
- Management and its service provider did not design and implement appropriate control activities that use quality information to achieve objectives and maintain documentation of such.
- Management and its service provider did not complete, document, and monitor corrective actions to remediate control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government* and *Cost Estimating and Assessment Guidance*
- OMB Circular No. A-123
- DoD FMR
- Army policies and guidance
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*, SFFAS 5: *Accounting for Liabilities of the Federal Government*, SFFAS 6: *Accounting for Property, Plant and Equipment*, SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board,* Technical Release 11: *Implementation Guidance on Cleanup Costs*

Associated with Equipment, and Technical Release 18: *Implementation Guidance for Establishing Opening Balances*

- FFMIA
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- TFM

As a result of deficiencies noted above, the potential exists that transactions would not be supported by appropriate documentation and controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service provider to perform, the following:

- Perform and document a thorough risk assessment and work with its service provider, as necessary, to design, implement, and document procedures and controls to maintain evidential matter.
- Communicate and enforce existing policies and procedures. Provide training and guidance to individuals in their responsibilities and perform monitoring of whether controls are implemented and operating as designed.
- Update policies and procedures to document and define key evidential matter that is required to support financial statement amounts and performance of controls, require evidential matter to agree with the general ledger detail, and have evidential matter readily available for inspection.
- Continue developing and implementing corrective actions. Devote sufficient resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, and contingency planning controls.
- Research and resolve the configuration issues of their financial general ledger and legacy accounting systems that will allow them to obtain complete and accurate detailed population reports summarizing the balances for accounts payable, accounts receivable, undelivered orders, and unfilled customer orders.

H. Information Technology Controls

Management and its service providers continued to improve Information Technology (IT) controls; however, they did not effectively design, implement, and operate certain IT controls to protect the financial systems and related financial data. In addition, management did not implement compensating controls to address the service providers' IT controls that were not effectively designed, implemented, or operated. Our findings are summarized as follows:

- **Access Controls**. Management and its service providers did not effectively design, implement, and operate the application, database, and operating system access controls around the authorization, provisioning, monitoring, and deactivation of end, privileged, temporary, and system administrative users. In addition, management did not consistently identify complete and accurate user populations. Management and its service providers did not consistently conduct and document periodic reviews of user accounts to remove access for terminated, transferred, or inactive employees and contractors, and to confirm the need for continued and appropriate access based on least privilege principles. Management and its service providers did not consistently design and implement application, database, and operating system audit logging controls, including audit log configuration, security event identification, tracking, evaluation, management review, and response procedures, as well as restricting log report access to an independent person. Further, management and its service providers did not properly design and implement controls around application, database, and operating system password security and inactivity configuration parameters.
- **Segregation of Duties**. Management and its service providers did not effectively design, implement, and operate controls preventing and/or detecting the inappropriate use or provisioning of incompatible application, database, and/or operating system privileges (including temporary access), based on least privilege concepts. Further, management did not consistently design, document, and implement controls over the restriction of access to the feeder system segregation of duties risk rule sets based on least privilege considerations. Additionally, management and its service providers did not consistently segregate and/or monitor the use of incompatible access privileges related to system support functions that preclude system developers from updating production environments.
- **Configuration Management**. Management and its service providers did not effectively design, implement, and operate configuration change management controls for the application and operating system layers, to include controls that enable approved changes to be traced back to the production environments. In addition, management did not design and implement procedures to annually review applicable configuration management policies to accurately reflect the current operating procedures performed. For implemented processes, management and its service providers did not consistently design and maintain evidence to support the identification and tracking, testing and/or approval of operating system and application changes before migration into the production environment, as well as validate that implemented changes do not impact system data.
- **Security Management**. Management and its service providers were unable to demonstrate that application vulnerability management and assessment programs were effectively designed and implemented. Specifically, management did not consistently perform vulnerability assessments, as well as track all known vulnerabilities and associated remediation activities within Mitigation Action Plans (MAPs) or Plans of Actions and Milestones (POA&Ms).
- **Job Processing**. Management and its service providers did not effectively design, implement, and operate controls to restrict access to the job scheduler based on least privilege concepts. In addition, management was unable to provide evidence that job schedule changes are tracked, tested, approved, and implemented to the production environment in accordance with policies and procedures. Further, management did not design, document, and implement controls over job processing to identify, track, notify, and resolve processing issues.

The above conditions primarily resulted because management and its service providers did not fully identify and address risks; develop, document, and implement policies and controls; assign sufficient resources and certain responsibilities; provide sufficient oversight and monitoring of the control environment and system limitations; and timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Information Systems and Organizations, Revision 5*
- OMB Circular No. A-123
- Army policies and guidance
- DoD policies, instructions, memorandums, and other guidance

As a result of the deficiencies noted above, there is an increased risk over the completeness, accuracy, validity, confidentiality, and availability of the systems and their financial data, and a potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with its service providers to perform, the following:

- Identify risks and implement controls to address the risks to protect the accuracy, integrity, validity, confidentiality, and availability of the financial systems and data.
- Prioritize corrective actions and assign sufficient resources to implement the plans to design, document, implement and effectively operate policies and controls for access controls, segregation of duties, configuration management, security management, and job processing at the application, database, and operating layers.
- Implement compensating controls to address service providers' IT controls that are not effectively designed, implemented, or operated.
- Develop or update and implement policies and procedures for controls.
- Train personnel to properly perform controls, maintain control documentation, and monitor the performance of IT controls.

I. General Ledger Adjustments

Management and its service provider did not properly design, document, and implement controls over manual journal entries and other adjustments to the general ledger as follows:

- Management and its service provider did not fully design, document, and implement controls to demonstrate that manual journal entry listings are complete and accurate, provided timely and that all necessary adjustments were completely and accurately reflected in the general ledger.
- Management did not design and fully implement controls to identify manual journal entries that are subject to increased risk due to management override of controls from transactions entered through normal business processes in its main accounting system of record and other general ledger systems.
- Management and its service provider did not research the root causes of manual journal entries, to determine that the journal entries were necessary and appropriate. For example, management recorded manual journal entries in the general ledger and financial reporting systems to correct account relationships, edit checks, and abnormal balances. Although management and its service provider self-identified and corrected erroneous or inaccurate manual journal entries, the journal entry review control was not operating effectively to prevent the need for the recording of the entries.
- Management and its service provider did not properly design and implement controls over recorded manual journal entries and other adjustments to maintain appropriate documentation in support of the journal entry, including attributes being adjusted and the underlying events of the journal entry.

The above conditions primarily resulted because of the following:

- Management and its service provider did not identify, analyze, and respond to various types of risk throughout the entity related to achieving defined objectives.
- Management and its service provider did not design appropriate control activities in response to objectives and risks, including objectives related to information processing.
- Management and its service provider did not design the entity’s information systems to obtain and process information to meet each operational process’s information requirements and respond to the entity’s objectives and risks.
- Management and its service provider did not design and implement policies and control activities to use quality information to achieve objectives and respond to risks.
- Management did not use ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of the service organization’s controls over the assigned process.
- Management and its service provider did not complete, document, and monitor corrective actions to remediate control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities* and SFFAS 5: *Accounting for Liabilities of The Federal Government*
- OMB Circular No. A-123
- OMB Circular No. A-136
- TFM

- DoD FMR
- FFMIA

As a result of the deficiencies noted above, the potential exists that process level controls may be overridden, and a misstatement may occur potentially causing a material misstatement in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with its service provider to perform, the following:

- Coordinate with the systems owners to identify and correct the root cause of errors in data files submitted to the financial reporting system; develop and implement procedures and controls over the completeness and accuracy of data files transmitted to the financial reporting system; and improve the transactional data to contain the appropriate level of detail.
- Define and fully implement standard postings that are part of normal business processes and subject to established controls; and require individuals responsible for data entry to use standard transaction codes to significantly reduce the number of manual journal entries.
- Adhere to monitoring procedures to verify manual journal entries are properly supported, are appropriate, and are consistently reviewed to prevent unsupported, erroneous or inaccurate entries.
- Design and implement controls, such as reconciliations, to validate that manual journal entry logs and populations are complete and accurate and provide journal entry logs within established timeframes.
- Analyze existing business processes and manual adjustments to provide a clear definition of the adjustments and adjustment types recorded in general ledger and legacy accounting systems and determine if system updates are necessary.
- Coordinate with system owners to update system functionality to implement changes and correct errors caused by inaccurate system configurations, missing relevant data elements and/or improper system mappings.
- Focus resources on corrective action plan implementation.

J. Accounts Receivable and Revenue

Management and its service provider did not fully design, implement, and document controls over unfilled customer orders revenue, accounts receivable, and collections to record underlying events completely and accurately with proper supporting documentation in the consolidated financial statements. Specifically:

- Management did not properly recognize earned revenue from services provided and goods sold for certain transactions in accordance with U.S. generally accepted accounting principles (GAAP) and in the appropriate period.
- Management did not sufficiently assess risks and develop processes and controls over revenue from goods sold.
- Management did not effectively document nor implement controls over the accuracy of recorded public accounts receivable balances.
- Management did not sufficiently design and implement controls over recording collections of accounts receivable based on adequate transactional support. Management did not align the posting logic and intragovernmental versus with the public presentation to the underlying business events.
- Management did not effectively implement controls over the allowance for doubtful accounts such that all receivables were properly aged for analysis of the allowance. Management also did not effectively implement controls over recording adjustments in the general ledger.

The above conditions primarily resulted because of the following:

- Management and its service provider did not design appropriate control activities to record revenue in accordance with U.S. GAAP.
- Management and its service provider did not identify, analyze, and respond to risks related to achieving the defined objectives.
- Management and its service provider did not obtain relevant data from reliable internal and external sources and process the data into quality information.
- Management and its service provider did not communicate quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system.
- Management and its service provider did not complete corrective actions to remediate control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities* and SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- DoD FMR
- TFM
- Army policies and procedures

As a result of the deficiencies noted above, the potential exists that controls could fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with its service provider to perform, the following:

- Design, and implement processes and controls over the timely recording of related transactions based on a thorough risk assessment that identifies and analyzes risk points relevant to the revenue processes.
- Identify information requirements to develop consistent report criteria for reconciliations.
- Continue to design and implement compensating controls to calculate accounts receivable aging in a timely manner.
- Design and implement procedures to record collection transactions to the general ledger in the period they occur.
- Identify and analyze the financial statement impact of unmatched collections and undistributed collections, including those for which transactional detail is unavailable, and modify the unmatched collections and undistributed collections posting logic to address these risks as appropriate.
- Continue to develop and implement corrective actions to address revenue recognition, accounts receivable balances, allowance for doubtful accounts, unfilled customer order balances, unmatched and undistributed collections, and respective posting logic.

K. Accounts Payable and Related Accruals

Management and its service provider did not fully design, implement, and document controls over undelivered orders, expenses, accounts payable, and disbursements to record underlying events completely in the consolidated financial statements. Specifically:

- Management and its service provider did not develop and document methodologies to record accruals for goods and/or services received or earned from reimbursable agreements but not yet invoiced at period end. Army's methodology for recording accruals for certain activities included recording known amounts but no estimate was made to account for goods and services received but not recorded at period end.
- Management and its service provider implemented accrual methodologies for certain expense, revenue from reimbursable agreements, and military payroll activities, however, the methodologies were not sufficient to record accounts payable and accounts receivable completely and accurately. Deficiencies included: excluding data or using imprecise data; failure to assess whether accruals are probable, measurable, and meet the criteria to be recorded as a liability; failure to record the full amount of developed accruals in the general ledger; and lack of a retrospective review to validate the accuracy of assumptions.
- Management and its service provider did not design and implement controls or system requirements for all procurement processes to consistently validate the receipt and acceptance of goods and/or services prior to recording in the general ledger.

The above conditions primarily resulted because of the following:

- Management and its service provider did not effectively complete risk assessment activities, such as identifying, analyzing, and responding to risks based on such analysis.
- Management and its service provider did not always design and perform appropriate control activities in response to the entity's objectives and risks. Designs that did exist did not always include documentation and communicating key aspects of control operation to control owners.
- Management and its service provider did not obtain, process, and use quality data from reliable internal and external sources.
- Management and its service provider did not complete, document, and monitor corrective actions to remediate control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*, SFFAS 5: *Accounting for Liabilities of The Federal Government*, SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and SFFAC 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
- DoD FMR
- TFM
- DFAS and Army policies and procedures
- American Institute of Certified Public Accountants (AICPA), *Auditing Accounting Estimates*

By not recording the necessary accruals and adjustments, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements and related note disclosures.

Recommendations:

We recommend management perform, or work with its service provider to perform, the following:

- Design, implement, document, and adhere to methodologies to completely and accurately account for activities received or due as of period end. Methodologies should include documentation of key assumptions, validation of completeness and accuracy, and policies, procedures, and controls to identify and record accruals. Such documentation should demonstrate that liabilities are probable, measurable, and meet the criteria to be recorded.
- Develop and implement policies, procedures, and controls, and maintain sufficient documentation to demonstrate the following activities:
    - Retrospective review over the accuracy of estimation methodologies.
    - Receipt and acceptance of goods and services.
- Devote appropriate level of resources to implement accrual methodologies and continue to develop and implement corrective actions to remediate deficiencies.

L. Financial Reporting

Management and its service provider did not effectively design, document, and implement controls over financial reporting. Specifically:

- Management did not sufficiently design, document, and implement controls over the financial statements and related note disclosures to validate that information is presented in accordance with U.S. GAAP, to include:
    - A review of policies and procedures that may represent a departure from U.S. GAAP and did not perform and document a qualitative and quantitative assessment of the impact to the financial statements and related note disclosures resulting from such policies and procedures.
    - Determining the appropriate accounting treatment for the movement of certain funds between general and trust funds.
    - Properly recognizing earned revenue from services provided and goods sold for certain transactions in accordance with U.S. GAAP and in the appropriate period.
    - Supporting specific disclosures for public-private partnerships, the reconciliation of net cost of operations to net outlays, elements of property, plant, and equipment, operating material and supplies, and intra-entity eliminations between dedicated collection funds.
    - Properly record budgetary transactions to include obligations, recoveries, and upward adjustments only when supported by valid contract actions, and in the correct accounting period, and represent a legally binding agreement.
- Management did not effectively implement controls in reconciling the Report on Budget Execution and Budgetary Resources (SF-133) to the amounts on the Apportionment and Reapportionment Schedule (SF-132) timely for year-end reporting.
- Management and its service provider did not design and implement controls to consistently record transactions in accordance with USSGL requirements.
- Management and its service provider did not consistently design, document, implement, and/or operate management review controls over the legal representation data call spreadsheet, environmental and disposal liabilities reporting package, journal entries, and note disclosures.

The above conditions primarily resulted because of the following:

- Management and its service provider did not identify, analyze, and respond to risks related to achieving the defined objectives.
- Management and its service provider did not develop and maintain documentation of internal control systems and communicate such to control owners and relevant external parties.
- Management and its service provider did not design and implement policies and control activities to use quality information to achieve objectives and respond to risks. Monitor the internal control system, evaluate results, and enforce accountability for individuals performing their control responsibilities.
- Management and its service provider did not complete, document, and monitor corrective actions to remediate control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS No. 1: *Accounting for Selected Assets and Liabilities*, SFFAS 3: *Accounting for Inventory and Related Property*, SFFAS 6: *Accounting for Property, Plant and Equipment*, SFFAS 7: *Accounting for*

Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, SFFAS 29: *Heritage Assets and Stewardship Land,* SFFAS 42: *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, SFFAS 49: *Public-Private Partnerships: Disclosure Requirements*, and SFFAS 59: *Accounting and Reporting of Government Land*

- OMB Circular No. A-11: *Preparation, Submission, and Execution of the Budget* (OMB Circular No. A-11)
- OMB Circular No. A-123
- OMB Circular No. A-136
- TFM
- DoD FMR and Army policies
- FFMIA

As a result of the deficiencies noted above, the potential exists that misstatements or misclassifications would fail to be prevented, or detected and corrected in the consolidated financial statements and related note disclosures.

Recommendations:

We recommend management perform, or work with its service provider to perform, the following:

- Dedicate sufficient resources to perform risk assessment procedures over relevant processes to obtain and formally document the understanding of processes, including identifying the flow of information, material risk points, and key controls. The assessment should include a thorough and comprehensive analysis of non-GAAP policies over financial processes and consider results of audit findings. Management should design and implement appropriate controls to respond to identified risks and ensure complete and accurate presentation of required information in the consolidated financial statements and related note disclosures.
- Implement policies and procedures to address completeness and accuracy of underlying information and present disclosures in accordance with relevant accounting standards.
- Implement policies and procedures to prevent, or detect and correct transactions, account mapping, and other erroneous data elements that result in abnormal balances and align them with the TFM.
- Design or implement policies and procedures to address and correct USSGL non-compliant transactions and train personnel to recognize and accurately record transactions.
- Implement system updates to ensure data elements are completely and accurately transmitted, transaction detail or other relevant information is readily available, and transactions are posted to the correct USSGL accounts.
- Monitor and enforce consistent performance of policies and controls, provide training to personnel, and complete implementation of planned corrective actions related to control deficiencies.
- Evaluate and update policies, processes, and system configurations driving accounting recognition for non-accounting events to reduce corrections and reversals.
- Evaluate accounting guidance to record obligation transactions that meet the criteria and definition of an obligation.

M. Intra-governmental Transactions and Intra-entity Eliminations

Management and its service provider did not effectively design and implement controls over transactions with other Federal entities and within the Army GF as follows:

- Management did not properly record and present intra-entity obligations in accordance with guidance.
- Management and its service provider did not record trading partner information at the transaction level to facilitate reconciling and eliminating intragovernmental transactions to the related general ledger transactional details. In addition, management did not design existing controls to be sufficiently precise, including establishing specific criteria and thresholds for reconciliation, and appropriately presenting adjustments to the correct sub-caption in the Statement of Net Cost.
- Management and its service provider did not accurately identify, support, or reconcile intra-entity activity prior to elimination in the financial reporting system. The lack of a reconciliation also prevented management from determining the correct presentation of eliminated balances between captions within the Statement of Net Cost.

The above conditions primarily resulted because management and its service provider did not complete corrective actions, appropriately identify risks, communicate key information, or obtain relevant data from reliable internal and external sources in a timely manner based on the identified information requirements.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-11
- OMB Circular No. A-136
- TFM
- The Economy Act, Title 31

As a result of the deficiencies noted above, the potential exists that controls could fail to prevent, or detect and correct misstatements in the consolidated financial statements. Further, the deficiencies could result in a misclassification with certain line items presented in the consolidated financial statements.

We recommend management perform, or work with its service provider to perform, the following:

- Obtain relevant and reliable trading partner and intra-entity transactional detail in a format that accurately interfaces to the general ledger system in a timely manner for financial reporting objectives. Until such process updates are made, management should continue to design and implement compensating controls that derive accurate trading partner information.
- Develop and implement specific criteria and thresholds for researching and resolving discrepancies in a manner that meets financial reporting objectives.
- Complete, document, and monitor corrective actions to remediate control deficiencies on a timely basis.

N. Fund Balance with Treasury

Management and its service provider improved controls to identify variance types within the Fund Balance with Treasury reconciliation and more consistently provide documentation to support Fund Balance with Treasury activity. However, deficiencies in the design, implementation, and documentation of controls related to the Fund Balance with Treasury reconciliation continued to exist, as follows:

- Management did not effectively design controls to identify, reconcile, and resolve Fund Balance with Treasury reconciliation variances in a timely manner, in accordance with U.S. Department of Treasury (Treasury) and Department of Defense policy.
- Management did not assess and document the risk of financial misstatements or fully design controls over reconciling items between Army's system of record and Treasury's records, including those caused by prior year transactions, adjustments, and journal vouchers.
- Management did not identify the underlying voucher-level transactional detail associated with all variances between the unadjusted trial balance and Treasury.
- Management did not effectively design and document controls over the undistributed adjustment to fully reconcile the voucher level detail to the undistributed adjustments and resolve variances timely in accordance with Treasury and Department of Defense policy.

The above conditions primarily resulted because management and its service provider did not identify and analyze risks throughout the entity to provide a basis for analyzing and estimating the significance of the risks and design specific actions to respond to the analyzed risks. Management and its service provider did not support the internal control system by obtaining relevant data from internal and external sources, process the obtained data into quality information, and communicate such quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives and addressing risks . Lastly, management did not complete, document, and monitor corrective actions to remediate control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*
- TFM
- DoD FMR

As a result of the deficiencies noted above, the potential exists that controls could fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with their service provider to perform, the following:

- Design and implement controls to identify, reconcile, assign, track, age, research, and resolve Fund Balance with Treasury reconciliation variances in a timely manner.
- Assess and document the risks of financial misstatement and fully design controls over reconciling items between Army's system of record and Treasury's records, including those caused by prior year transactions, adjustments, and journal vouchers.
- Identify the underlying voucher-level transactional detail associated with all variances between the unadjusted trial balance and Treasury.

- Fully reconcile and accurately resolve undistributed adjustment variances in a timely manner, in accordance with policy.

O. Completeness

Management and its service providers did not sufficiently design and implement controls to validate financial transactions are completely and accurately reported in the consolidated financial statements as follows:

- Management and its service providers did not fully design, document, and implement controls to validate the completeness, existence, and accuracy of year-end balances for property, plant, equipment, environmental and disposal liabilities, procurement, and revenue activities.
- Management and its service providers did not ensure control operators consistently performed and documented required reviews in a timely manner and with sufficient precision to identify and resolve exceptions, errors and/ or variances.
- Management and its service providers did not fully design and implement reconciliation processes to validate that financial information is transferred completely and accurately between feeder systems, and from feeder systems to the financial system and that adjustments are completed timely for period end financial reporting.

The above conditions primarily resulted because of the following:

- Management and its service providers did not assign responsibility or delegate authority to achieve the entity's reconciliation objectives.
- Management and its service providers did not identify, analyze, and respond to risks considering the effect on objectives.
- Management and its service providers did not design, implement, and monitor control activities that use quality information to achieve objectives.
- Management and its service providers did not document and complete corrective actions to remediate control deficiencies on a timely basis and monitor the status of remediation efforts, so they are completed timely.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government* and *Cost Estimating and Assessment Guide*
- FASAB SFFAS 5: *Accounting for Liabilities of the Federal Government*, SFFAS 6: *Accounting for Property, Plant and Equipment*, and Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*
- OMB Circular No. A-123
- DoD FMR, policies, and guidance
- Army and DFAS policies, regulations, and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with its service providers to perform, the following:

- Perform and document comprehensive risk assessment procedures for all reconciliations and evaluate the design of existing control policies and procedures in response to identified risks.
- Continue to design and implement policies, procedures, and controls to record transactions completely and accurately and reconcile resulting differences between systems. Such policies should include requirements

to demonstrate the completeness and accuracy of reports and require timely completion of control activities at year-end.

- Identify the objective for each reconciliation to include the systems included in the control, criteria, and level of precision for investigating variances, the requirements to timely research and resolve variances, and the documentation required to support the controls.
- Enforce existing policies and verify control operators are performing the controls through monitoring in accordance with requirements. Provide resources to control operators to reinforce the importance of reviews.
- Continue to implement corrective actions, including implementation of integrated systems and validation that new processes and functionality address existing deficiencies.

P. Entity Level Controls – Enterprise Responsibilities

Management did not properly design and implement enterprise responsibility controls as follows:

- Management did not finalize its internal control oversight body charter to define the purpose, responsibilities, and members of such.
- Management did not properly design its risk management internal control program guidance to include all risks and tolerances.
- Management did not implement controls to demonstrate performance appraisals were effectively completed.

The above conditions primarily resulted because of the following:

- Management did not fully complete risk assessment procedures to understand all financial reporting risks and did not fully establish controls to respond to financial reporting risks.
- Management did not oversee the design, implementation, and operation, and operation of the organizational structure to enable management to fulfill its responsibility.
- Management did not assign resources to monitor and enforce accountability of individuals performing control responsibilities.
- Management did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- FMFIA
- DoD Instruction 1400.25

Without effective enterprise responsibility controls, the risk exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have material weaknesses over financial reporting.

Recommendations:

We recommend that management perform the following:

- Complete risk assessment procedures, establish enterprise responsibility controls, and timely document and implement corrective actions.
- Finalize its internal control oversight body charter to include the purpose, responsibilities, and members who should oversee the design, implementation, and operation of the organizational structure.
- Design its risk management internal control program guidance to include all risk types and tolerances.
- Enforce accountability of individuals to fully demonstrate performance appraisals are effectively completed.

Q. Entity Level Controls – Other

Management did not properly design and implement entity level controls, including the control activities described in previous sections of Exhibit I, to establish a control system that will produce reliable financial reporting. Specifically:

Control Environment. Management did not establish an effective control environment. For example, management did not:

- Develop an organizational structure with an understanding of the overall responsibilities and assign these responsibilities appropriately.
- Consistently develop policies to establish and implement controls across its control environment and develop and maintain sufficient documentation of the control system.
- Consistently recruit, develop, and retain competent personnel to achieve the Army GF's financial reporting objectives, establish expectation of competence, and hold individuals accountable for their control responsibilities.

Risk Assessment. Management did not consistently design and implement its risk assessment controls. For example, management did not:

- Define certain objectives in specific and measurable terms to enable the design of internal controls for related risks.
- Complete its risk assessment process to identify, analyze, and address certain risks for the financial statements and note disclosures required by OMB Circular No. A-123.
- Analyze and respond to identified changes and related risks to maintain an effective control system.

Information and Communication. Management did not fully design and implement its information and communication controls. For example, management did not:

- Fully design and implement controls over the identification, quality, and reliability of financial data and supporting documentation.
- Fully design a process that uses the entity's objective and related risks to identify the information requirements needed to achieve the objectives and address the risks.
- Consistently obtain and communicate quality information down and across internal and external reporting lines.

Monitoring. Management did not fully design and implement monitoring controls. For example, management did not:

- Fully monitor and evaluate entity level, manual, general information technology, system application, and service organization controls for key financial statement line items, note disclosures, and the associated financial risks.
- Fully define service organization responsibilities and identify and evaluate service organizations and complimentary user entity controls, noted by the service organizations.
- Design and implement controls to address control deficiencies at service organizations or perform assessments for service organizations that did not have an examination.
- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

The above conditions primarily resulted because management did not assign the appropriate level of resources to achieve control objectives, enforce accountability of individuals performing control responsibilities, consistently perform risk assessment procedures to identify all relevant risks, properly design, document and implement controls to respond to risks, disseminate quality information on a timely basis across the entity, consistently monitor the control environment, and timely complete its corrective action efforts for previously identified deficiencies.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- FFMIA
- Army policies and guidance

Without effective entity level controls, the potential exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have material weaknesses over financial reporting.

Recommendations:

We recommend that management perform the following:

- Continue to develop and implement control policies and procedures across its control environment, including maintenance of a control catalogue that includes all controls with detailed steps and documentation readily available to support the control system.
- Continue to focus on recruiting, developing, and retaining appropriate personnel to achieve the Army GF's financial reporting objectives, establish expectations of competence, and effectively enforce accountability of individuals performing their internal control responsibilities.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas.
- Consider risks associated with prior year findings, the financial statements, note disclosures, and changes to processes required by OMB Circular No. A-123, and analyze and respond to such risks through the design and implementation of controls.
- Develop, document, and implement controls over the identification, quality, and reliability of financial data and supporting documentation.
- Communicate policies, procedures, controls, and quality information down and across internal and external reporting lines.
- Continue efforts to develop and complete the control evaluation program covering the entity level, manual, general information technology, system application, and service organization controls for key financial statement line items, note disclosures and financial risks.
- Define service organization responsibilities and identify and evaluate all service organization and complementary end user controls.
- Obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports and implement controls to address control deficiencies at service organizations.
- Continue efforts to develop and implement corrective actions related to control deficiencies.

A. Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The United States (U.S.) Department of the Army (Army) General Fund (GF) management (management) performed an internal control assessment as required under the FMFIA; however, management's assessment did not substantially comply with FMFIA and the related Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular No. A-123), requirements as follows:

- Management did not effectively design its internal control assessment to address managing privacy risks and conducting acquisition assessments as required by OMB Circular No. A-123 and did not define risk tolerances in its risk assessment template.
- Management did not effectively execute its internal control assessments as management did not consistently document the internal control evaluation plans, financial statement assertions, testing procedures, sample sizes, testing results, and evidence of management review.
- Management did not perform all planned internal controls testing at all reporting organizations, test all relevant controls, and consistently develop and maintain corrective action plans.

The above conditions primarily resulted because of the following:

- Management did not perform sufficient risk assessment and prioritize implementation of all FMFIA and OMB Circular No. A-123 requirements when designing their internal control assessment.
- Management did not hold individuals accountable for their assigned responsibilities and monitor the internal assessment program.
- Management did not monitor the status of remediation efforts and implement corrective actions timely.

The criteria are as follows:

- FMFIA
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- Army policies and guidance

The Army GF did not substantially comply with FMFIA and the related OMB Circular No. A-123 requirements, which may lead to not identifying the appropriate risks, key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting deficiencies could cause misstatements to the consolidated financial statements. Additionally, the Army GF internal control environment did not support management's assertion of modified assurance of the operating effectiveness of internal controls over reporting in its Annual Statement of Assurance.

Recommendations:

We recommend that management perform the following:

- Update internal control assessment guidance and risk assessment template to address managing privacy risks, conducting acquisition assessments, and defining risk tolerances as required by OMB Circular No. A-123.
- Enforce accountability of individuals performing responsibilities, and monitor reporting organizations to determine that individuals effectively perform and document risk and internal control assessments.

- Communicate and enforce policies on documenting internal control evaluation plans, financial statement assertions, testing procedures, sample sizes, testing results, corrective actions, and evidence of management review.
- Perform and document the internal control assessment for all reporting organizations to include all relevant entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.
- Focus resources on timely implementing corrective actions.

B. Federal Financial Management Improvement Act of 1996 (FFMIA)

The Army GF financial systems did not substantially comply with the following FFMIA requirements:

- **Federal Financial Management Systems Requirements**. As discussed in Exhibit I – Material Weaknesses, management and its service provider did not implement sufficient and effective financial and information technology controls to consistently support reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. As a result, the Army GF did not substantially comply with the federal financial management systems requirements.
- **Federal Accounting Standards**. As discussed in Exhibit I – Material Weaknesses, management and its service provider did not properly design, implement, and effectively operate controls, which affected management's ability to prepare the consolidated financial statements and support the amounts reported on the consolidated financial statements in accordance with the federal accounting standards. Additionally, management's guidance, corrective action plans, and self-assessment did not address the federal accounting standard requirements. As a result, the Army GF did not substantially comply with the federal accounting standards requirements.
- **U.S. Standard General Ledger**. Management did not configure certain financial management systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not fully demonstrate that management analyzed all financial processes to determine transactions are recorded consistently with USSGL requirements or document the analysis completed. Additionally, management's guidance, corrective action plans, and self-assessment did not address the USSGL requirements. As a result, the Army GF did not substantially comply with the USSGL requirements.

The above conditions primarily resulted because of the following:

- The Army GF did not substantially meet FFMIA requirements because of the reasons discussed in Exhibit I – Material Weaknesses and did not fully perform a risk assessment, evaluate information objectives, and design and document controls in response to the risks and objectives.
- Management did not perform appropriate monitoring of controls.
- Management did not consistently assign and document control responsibilities.
- Management and its service provider did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FFMIA
- Treasury Financial Manual
- OMB Circular No. A-123
- DoD policies and guidance

As a result of the deficiencies noted above, the financial systems did not substantially comply with FFMIA and the potential exists that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Complete risk assessment, assign and document control responsibilities, and timely implement the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial management system, federal accounting standard, and USSGL requirements.
- Address the federal accounting standards and USSGL requirements in management's guidance, corrective action plans, and self-assessments.
- Configure financial management systems and processes to comply with the USSGL requirements and design and document controls to demonstrate that management analyzed all financial processes to determine transactions are recorded consistently with USSGL requirements

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FOI

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2023 Army General Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the audit report. We concur with the findings described in the report and remain committed to taking corrective actions to address the identified material weaknesses and instances of non-compliance.

2. As a result of the Audit Acceleration Plan and focusing on its most material areas, the Army exhibits its dedication to resolving long-standing financial reporting issues. For FY 2024, we will prioritize and focus our remediation efforts in the following areas:

- Secretary of Defense Audit Priorities
  - Improve Fund Balance with Treasury
  - Create a Universe of Transactions
  - Accelerate and Strengthen Risk Management and Internal Controls
  - Optimize Asset Valuations and Procurements

- Army General Fund Audit Priorities
  - Execute the FY 2024 Material Weakness Downgrade Plan
  - Enhance the Army's Risk Management and Internal Controls Program
  - Invest in the Army's Continuous Monitoring Program
  - Address and/or close new and legacy audit findings documented by the Army Audit Agency and Department of Defense Inspector General
  - Maintain Army's focus on the Federal Financial Management Improvement Act

3. The Army is looking forward to the opportunities that lie ahead in FY 2024: its continued investment in the Army Audit Acceleration Plan, maintaining its position as the DoD leader of closing IT audit findings, as well as the impending material weakness downgrades in areas such as Fund Balance with Treasury and Environmental and Disposal Liabilities. A newly published "Audit EXORD" (EXORD 261-23) positions the Army and its commands to not only secure an unmodified audit opinion, but also reinvigorate the Army's focus on business processes and internal controls: cornerstones of sound financial management. All of this is done with the American warfighter and their families at the center, because without, the U.S. Army would not be the world's most formidable fighting force.

RAMSEY.MICHAEL.ALLEN.[redacted]
Digitally signed by RAMSEY.MICHAEL.ALLEN.[redacted]
Date: 2023.11.01 10:59:35 -04'00'

Michael A. Ramsey
Deputy Assistant Secretary of the Army
(Financial Operations and Information)

Department of Defense – Army General Fund

CONSOLIDATED BALANCE SHEETS

As of September 30, 2023 and 2022

(Amounts in Thousands)	2023 Consolidated		2022 Consolidated	
Assets (Note 2)				
Intragovernmental:				
Fund balance with Treasury (Note 3)	$	144,900,350	$	120,949,891
Investments (Note 5)		3,572		3,445
Accounts receivable (Note 6)		1,479,806		2,254,773
Advances and prepayments (Note 10)		195,568		85,724
Total intragovernmental		146,579,296		123,293,833
Other than intragovernmental:				
Cash and other monetary assets (Note 4)		560,253		676,252
Accounts receivable, net (Note 6)		4,611,340		4,662,560
Inventory and related property (Note 8)		45,136,550		44,250,350
General property, plant and equipment, net (Note 9)		128,930,043		136,478,842
Advances and prepayments (Note 10)		433,435		2,141,788
Total other than intragovernmental		179,671,621		188,209,792
Total assets	$	326,250,917	$	311,503,625
Stewardship property, plant & equipment (Note 9)				
Liabilities (Note 11)				
Intragovernmental:				
Accounts payable	$	2,506,896	$	2,413,743
Advances from Others and Deferred Revenue (Note 15)		27,138		82,488
Other liabilities (Note 13 and 15)		1,821,563		1,182,287
Total intragovernmental		4,355,597		3,678,518
Other than intragovernmental:				
Accounts payable		6,123,883		5,451,388
Federal employee and veteran benefits payable (Note 13)		5,923,845		6,021,629
Environmental and disposal liabilities (Note 14)		36,458,130		35,354,465
Advances from Others and Deferred Revenue (Note 15)		659,754		536,685
Other liabilities (Note 15, 16 and 17)		6,125,137		6,002,912
Total other than intragovernmental		55,290,749		53,367,079
Total liabilities	$	59,646,346	$	57,045,597
Commitments and contingencies (Note 17)				
Net Position				
Unexpended appropriations – other funds	$	133,317,045	$	112,850,910
Cumulative results of operations – dedicated collections (Note 18)		127,720		122,372
Cumulative results of operations – other funds		133,159,806		141,484,746
Total net position		266,604,571		254,458,028
Total liabilities and net position	$	326,250,917	$	311,503,625

The accompanying notes are an integral part of these financial statements.

Department of Defense – Army General Fund

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2023 and 2022

(Amounts in Thousands)	2023 Consolidated	2022 Consolidated
Program Costs (Note 19)		
Gross costs	$ 222,330,368	$ 232,020,049
Military personnel	69,726,924	68,546,042
Operations, readiness & support	72,820,862	72,489,162
Procurement	32,096,162	23,375,118
Research, development, test & evaluation	35,851,659	58,484,237
Family housing & military construction	11,834,761	9,125,490
(Less: earned revenue)	$ (30,053,164)	$ (53,377,677)
Net cost before losses/(gains) from actuarial assumption changes for military retirement benefits (Note 19)	192,277,204	178,642,372
Net program costs including assumption changes	192,277,204	178,642,372
Net Cost of Operations	$ 192,277,204	$ 178,642,372

The accompanying notes are an integral part of these financial statements.

Department of Defense – Army General Fund

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Year Ended September 30, 2023

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations:			
Beginning Balance	$ -	$ 112,850,910	$ 112,850,910
Appropriations received	-	189,805,964	189,805,964
Appropriations transferred-in/out	-	15,184,378	15,184,378
Other adjustments	-	(3,890,704)	(3,890,704)
Appropriations used	-	(180,633,503)	(180,633,503)
Net Change in Unexpended Appropriations	-	20,466,135	20,466,135
Total unexpended appropriations	-	133,317,045	133,317,045
Cumulative Results of Operations			
Beginning Balance	122,372	141,484,746	141,607,118
Other adjustments	-	(182)	(182)
Appropriations used	-	180,633,503	180,633,503
Non-exchange revenue	101	7,585	7,686
Donations and forfeitures of cash and cash equivalents	63,258	383	63,641
Transfers-in/out without reimbursement	-	1,545,161	1,545,161
Imputed financing	-	1,489,327	1,489,327
Other	(28,515)	246,991	218,476
Net Cost of Operations	29,496	192,247,708	192,277,204
Net Change	5,348	(8,324,940)	(8,319,592)
Cumulative Results of Operations	127,720	133,159,806	133,287,526
Net Position	$ 127,720	$ 266,476,851	$ 266,604,571

The accompanying notes are an integral part of these financial statements.

Department of Defense – Army General Fund

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Year Ended September 30, 2022

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations:			
Beginning Balance	$ -	$ 106,033,937	$ 106,033,937
Appropriations received	-	176,695,116	176,695,116
Appropriations transferred-in/out	-	6,355,413	6,355,413
Other adjustments	-	(3,505,143)	(3,505,143)
Appropriations used	-	(172,728,413)	(172,728,413)
Net Change in Unexpended Appropriations	-	6,816,973	6,816,973
Total unexpended appropriations	-	112,850,910	112,850,910
Cumulative Results of Operations			
Beginning Balance	97,354	151,996,825	152,094,179
Other adjustments	-	(1,382,146)	(1,382,146)
Appropriations used	-	172,728,413	172,728,413
Non-exchange revenue	25	4,584	4,609
Donations and forfeitures of cash and cash equivalents	53,607	917	54,524
Transfers-in/out without reimbursement	-	(2,124,592)	(2,124,592)
Donations and forfeitures of property	-	-	-
Imputed financing	-	1,014,653	1,014,653
Other	(20,414)	(2,119,736)	(2,140,150)
Net Cost of Operations	8,200	178,634,172	178,642,372
Net Change	25,018	(10,512,079)	(10,487,061)
Cumulative Results of Operations	122,372	141,484,746	141,607,118
Net Position	$ 122,372	$ 254,335,656	$ 254,458,028

The accompanying notes are an integral part of these financial statements.

Department of Defense – Army General Fund

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2023 and 2022

(Amounts in Thousands)	2023 Combined	2022 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 59,135,793	$ 44,961,538
Appropriations (discretionary and mandatory)	200,294,491	182,669,131
Spending authority from offsetting collections (discretionary and mandatory)	25,298,503	55,455,451
Total budgetary resources	$ 284,728,787	$ 283,086,120
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 246,860,561	$ 244,866,166
Unobligated balance, end of year:		
Apportioned, unexpired accounts	29,483,938	29,382,600
Exempt from apportionment, unexpired accounts	85,166	62,873
Unapportioned, unexpired accounts	28,396	35,632
Unexpired unobligated balance, end of year	29,597,500	29,481,105
Expired unobligated balance, end of year	8,270,726	8,738,849
Unobligated balance, end of year (total)	37,868,226	38,219,954
Total budgetary resources	$ 284,728,787	$ 283,086,120
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	177,691,144	173,660,276
Distributed offsetting receipts (-)	(316,380)	(38,141)
Agency outlays, net (discretionary and mandatory)	$ 177,374,764	$ 173,622,135

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – GENERAL FUND

Note 1. Significant Accounting Policies

1.A. Description and Mission of Reporting Entity

The United States (U.S.) Department of the Army (Army) mission remains constant: To deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. This mission encompasses the intent of the Congress, as defined in Title 10 and Title 32 of the United States Code (U.S.C.), to preserve peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 248-year life of the Army, but the environment and nature of conflict have undergone many changes over that time, especially with overseas contingency operations. These contingency operations have required that the Army simultaneously transform the way that it fights, trains, and equips its Soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the Nation's domestic and international security obligations today and into the future.

The Army General Fund (GF) has relationships with Non-Appropriated Funds Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs) that meet certain control elements regarding risk of loss or expectation of benefits. However, the Army GF does not meet enough control elements to consider them consolidated entities. See Note 26, *Disclosure Entities and Related Parties*, for additional information.

1.B. Basis of Presentation and Accounting

The accompanying financial statements and note disclosures have been prepared to report the financial position and results of operations of the Army GF as required by *the Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*. The financial statements have been prepared from the books and records of the Army GF sub-entities (Army Active, Army Reserve, and Army National Guard) in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The accompanying financial statements account for all resources for which the Army GF is responsible.

The accounting structure of the Army GF is designed to reflect both accrual and budgetary accounting transactions. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction, such as in the recording of obligations for undelivered orders. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash.

Statement of Federal Financial Accounting Standards (SFFAS) 56, *Classified Activities*, requires all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Army GF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position and Combined Statements of Budgetary Resources, in accordance with OMB financial statement reporting guidelines.

The Army is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded by Army GF.

1.C. Fund Types

The Army GF reporting entity combined Statements of Budgetary Resources include the total available budgetary resources, and their status, for the following fund types:

General Funds: General Funds are used for financial transactions funded by congressional appropriations, which include, but are not limited to, military personnel; operations, readiness, and support; procurement; research, development, test, and evaluation; and family housing and military construction.

Trust Funds and Special Funds: 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. Certain trust and special funds may be designated as funds from dedicated collections.

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

1.D. Revenues and Other Financing Sources

When authorized by legislation, the Army GF appropriations are supplemented by revenues generated by sales of goods or services. The Army GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and to the public, under the proprietary accrual basis, when earned and without regard to the timing of receipt or payment of cash.

The Army GF excludes nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statements of Net Cost and in Note 24, *Reconciliation of Net Cost to Net Outlays*. The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Army GF records accrued interest from U.S. Treasury securities and user fees transferred from custodial activities in trust and special funds as non-exchange revenue. Exchange revenues arise when the Army GF provides goods and services to the public or to another Government entity for a price.

1.E. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Significant estimates reported within the Army GF financial statements include useful lives of general property, plant, and equipment, accounts payable, probable and measurable contingent legal and other liabilities, and environmental and disposal liabilities.

1.F. Accounting for Intragovernmental Activities

The Treasury Financial Manual (TFM), Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army GF cannot accurately identify intragovernmental transactions by customer because the Army GF's systems do not track buyer and seller data at the transaction level. Seller entities to the Army GF provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with Army GF seller-side balances and are then eliminated.

In certain instances, goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the Army GF. Imputed financing represents the cost paid on behalf of the Army GF by another federal entity. Consistent with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, certain costs of the providing entity that are not fully reimbursed by the Army GF are recognized as imputed cost in the Statements of Net Cost and are offset by imputed financing in the Statements of Changes in Net Position. The Army GF recognizes imputed costs for: (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*; and

(3) losses in litigation proceedings. Consistent with the implementation of SFFAS 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

1.G. Transactions with Foreign Governments and International Organizations

The Army is responsible for implementing individual Foreign Military Sales cases and the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations as approved by the U.S. Department of State under the provisions of the *Arms Export Control Act of 1976*. 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.

1.H. Entity and Nonentity Assets

Entity assets are those assets that the Army GF has the authority to use in its operations. The authority to use funds in an entity's operations indicates either that the Army GF management has the authority to decide how funds are used or that management is legally obligated to use funds to meet entity obligations (e.g., salaries and benefits).

Nonentity assets are those assets held by the Army GF that are not available for use in its operations. The Army GF maintains accountability and reporting responsibility over these assets. Nonentity assets are offset by corresponding liabilities. See Note 2, *Nonentity Assets*, for detail regarding nonentity assets.

1.I. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) represents the aggregate amount of funds in the Army GF's accounts with the Department of the Treasury (Treasury) for which the entity is authorized to make expenditures and pay liabilities. The disbursing offices of the Defense Finance and Accounting Service (DFAS), Military Departments, U.S. Army Corps of Engineers (USACE) Finance Center and the financial service centers of the U.S. Department of State process the majority of the worldwide cash collections, disbursements, and adjustments of the Army GF. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

The U.S. Treasury records these transactions to the applicable FBWT account. On a monthly basis, Army GF reconciles FBWT to U.S. Treasury accounts.

See Note 3, *Fund Balance with Treasury*, for detail regarding Fund Balance with Treasury.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army GF including coin, 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 purchased and non-purchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange. Due to system limitations that preclude revaluation at period-end, the rate of latest purchase is used as an approximation.

The majority of cash and all foreign currency is classified as "nonentity" and is restricted. Amounts reported consist of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Army GF conducts a significant portion of operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five GF appropriations: (1) operation and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated as the variance between the current 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 Army GF does not separately identify currency fluctuation transactions.

See Note 4, *Cash and Other Monetary Assets*, for detail regarding cash and other monetary assets.

1.K. Investments and Related Interest

The Army GF reports investments in nonmarketable market-based U.S. 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. The intent of the Army GF is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The U.S. Treasury Bureau of Fiscal Service (BFS), on behalf of the Army GF, invests in nonmarketable market-based U.S. Treasury securities. These securities are not traded on any financial exchange but are priced consistently with publicly traded U.S. Treasury securities.

See Note 5, *Investments and Related Interest*, for detail regarding investments and related interest.

1.L. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Gross accounts receivable, both intragovernmental and with the public, are reduced to net realizable value by an allowance for doubtful accounts for amounts that are deemed uncollectible based on factors such as the aging of the individual accounts receivable, evaluation of the debtor's ability to pay, and payment history by aging category over the previous three years. The Army GF regards its intragovernmental accounts receivable balance, as substantially collectible, as there is no history of material uncollectible balances. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the *Intra-Governmental Transactions (IGT) Guide, Appendix 5,* Overall Intra-Governmental Transactions (IGT) Processes/General Information.

See Note 6, *Accounts Receivable, Net*, for detail regarding accounts receivable.

1.M. Inventory and Related Property

The Army GF manages only military or government-specific materiel under normal conditions. Related property includes operating materiel and supplies (OM&S). OM&S is categorized as either Held for Use; Held in Reserve for Future Use; Held for Repair; or Excess, Obsolete, and Unserviceable (EOU). OM&S includes ammunition not held for sale, spare parts, and repair parts. Items commonly used in and available from the commercial sector are not managed in the Army GF materiel management activities.

OM&S are valued at standard purchase price, based upon catalog price. Ammunition not held for sale, spare parts, and repair parts are centrally managed and stored, and reported on the Balance Sheets as Inventory and Related Property. As of FY 2023, Army has implemented the consumption method for OM&S items. The Army's implementation of the consumption method for OM&S items has resulted in the Army recognizing OM&S operating expenses for FY 2023.

See Note 8, *Inventory and Related Property*, for detail regarding inventory and related property.

1.N. General Property, Plant and Equipment

In 2018, the Army GF adopted SFFAS 50, *Establishing Opening Balances for General Property, Plant and Equipment*, for land balances, which permitted the disclosure of land acreage information and removal of the land dollar value in opening balances. The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

General equipment is capitalized at standard purchase price, based upon catalog price, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Army GF capitalization threshold. All other assets are capitalized at historical acquisition cost. The Army GF capitalizes improvements to existing real property if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Army GF depreciates real property and general equipment, other than Construction-in-Process (CIP), on a straight-line basis.

The Army's General Property, Plant, and Equipment (PP&E) capitalization threshold is $250 thousand. The capitalization threshold applies to all asset acquisitions and modifications/improvements.

When it is in the best interest of the government, the Army GF provides government property to contractors to complete contract work. The Army GF either owns or leases such property. The Army GF is required to maintain, in its property systems, information on all property furnished to contractors.

See Note 9, *General PP&E, Net*, for detail regarding PP&E.

1.O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that are not included in the General PP&E caption presented on the Balance Sheets. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely. These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in General PP&E on the Balance Sheets.

See Note 9, *General PP&E, Net*, for detail regarding heritage assets.

1.P. Advances and Prepayments

The Army GF reports advances and prepayments that are permitted by law, legislative action, or presidential authorization within other assets on the Balance Sheets. The Army records advances and prepayments to nonfederal entities for various events to include, but not limited to, advances for travel to personnel, advances for military allowances such as living quarter allowances, pay and housing, and for local national payroll down payments.

See Note 10, *Other Assets*, for detail regarding advances and prepayments.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. If a lease does not meet the criteria for a capital lease it is classified as an operating lease. Payments for operating leases are expensed over the lease terms as they become payable.

Office space leases entered into by the Army GF, land and family housing are the largest components of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future minimum lease payment projections include adjustments to payments using the Consumer Price Index.

See Note 16, *Leases*, for detail regarding leases.

1.R. Other Assets

Other assets include certain contract financing payments not reported elsewhere on the Army GF's Balance Sheet.

The Army GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army GF may provide financing payments. Contract financing payments are defined in the *Federal Acquisition Regulations* (FAR), Part 32 - *Contract Financing*, as authorized disbursements to a contractor before acceptance of supplies or services by the government. Contract financing payments 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 Army GF records certain contract financing payments as other assets.

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. The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or a stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments, based on a percentage or stage of completion, are reported as Construction-in-Progress.

See Note 10, *Other Assets*, for detail regarding contract financing payments.

1.S. Contingent and Other Liabilities

Other liabilities include deposit funds and suspense account liabilities, liabilities associated with disbursing officer cash, judgment fund liabilities, the Federal Employees' Compensation Act (FECA) reimbursement to the Department of Labor (DOL), custodial liabilities, employer contributions and payroll taxes payable, accrued funding payroll and benefits, accrued unfunded annual leave, contract holdbacks, and contingent and other liabilities.

The Army GF recognizes contingent liabilities when past events or exchange transactions occur, such as those arising from legal claims, a future loss is probable, and the loss amount can be reasonably estimated. The Army GF discloses contingent losses when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses.

See Note 15, *Other Liabilities*, and Note 17, *Commitments and Contingencies*, for detail regarding contingent and other liabilities.

1.T. Environmental and Disposal Liabilities

Environmental and disposal liabilities (E&DL) are estimated for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment*; SFFAS Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*; and Interpretation of Federal Financial Accounting Standards No. 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6 (Interpretation No. 9)*, recognition of an anticipated environmental liability occurs when there is a probable and measurable future outflow of resources.

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

1.U. Accrued Leave

The Army GF reports liabilities for military leave and accrued compensatory, annual, and credit hour leave for Civilians. Sick leave for Civilians is expensed as taken. The liabilities are based on current pay rates.

See Note 15, *Other Liabilities*, for additional information regarding accrued leave.

1.V. Treaties for Use of Foreign Bases

The Army GF has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the U.S. Department of State. The Army GF capitalizes assets purchased overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms allow the Army GF 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 non-retrievable capital assets. The settlement due to the U.S. or host nation is negotiated and considers the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Funds from Dedicated Collections

Consistent with SFFAS 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards No. 27, Identifying and Reporting Earmarked Funds*, funds from dedicated collections are financed by specifically identified revenues; required by statute to be used for designated activities, benefits or purposes; and remain available over time. The Army GF is required to account separately for and report on the receipt, use, and retention of revenues and other financing sources for funds from dedicated collections. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statements of Changes in Net Position (SCNP) and the Balance Sheets.

See Note 18, *Funds from Dedicated Collections*, for detail regarding funds from dedicated collections.

1.X. Fiduciary Activities

The Army GF fiduciary activities are, as indicated in SFFAS 31, *Accounting for Fiduciary Activities*, related to the collection or receipt and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which nonfederal individuals or entities have an ownership. The Army GF distinguishes the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized within the accompanying financial statements.

See Note 23, *Fiduciary Activities*, for detail regarding fiduciary activities.

1.Y. Federal Employee and Veteran Benefits

The Army GF's actuarial liability for employee compensation benefits is developed by the DOL and provided to the Army GF at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The Army GF reported no gains and losses in retirement benefits during this fiscal year. Actuarial assumptions related to Military Retirement and Other Federal Employee and Veterans Benefits Payable are detailed in Note 13, *Federal Employee and Veteran Benefits Payable*. The Army GF's policy is to recognize its liability reported by the DOL.

See Note 13, *Federal Employee and Veteran Benefits Payabl*e, for detail regarding federal employee and veteran benefits.

1.Z. Allocation Transfers

The Army GF is a party to allocation transfers with other federal agencies, representing legal delegations of authority to obligate budget authority on its behalf, as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. All financial activity related to allocation transfers (e.g., budget authority, obligations, and 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 that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

As a child entity, the Army GF has received allocation transfers from the Department of Health and Human Services, Federal Highway Administration and the U.S. Forest Service that do not meet the OMB exception and that are not reported within these financial statements. In addition, the Army GF receives allocation transfers for the Security Assistance programs that meet the OMB exception for EOP funds. However, the activities for these programs are reported separately from the Army's financial statements based on an agreement with OMB. As a parent entity, the Army GF reports in these financial statements the funds allocated to the U.S. Department of Transportation for the active Army and Army National Guard.

1.AA. Restatements

Not applicable

1.BB. Standardized Balance Sheet and Related Footnotes – Comparative Year Presentation

Not applicable

Note 2. Nonentity Assets

As of September 30 *(Amounts in thousands)*		2023		2022
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	853,848	$	986,055
B. Total Intragovernmental Assets	$	853,848	$	986,055
2. Other than Intragovernmental Assets				
A. Cash and Other Monetary Assets	$	560,253	$	676,252
B. Accounts Receivable		21,911		14,295
C. Total Non-Federal Assets	$	582,164	$	690,547
3. Total Non-Entity Assets	$	1,436,012	$	1,676,602
4. Total Entity Assets	$	324,814,905	$	309,827,023
5. Total Assets	$	326,250,917	$	311,503,625

Nonentity Assets

Nonentity Fund Balance with Treasury consists of deposit funds for payroll tax withholding, other payroll withholding and cancelled year collections.

Nonentity Cash and Other Monetary Assets, in addition to cash held by disbursing officers to carry out their paying and collecting missions, consists of foreign currency, which is valued using the U.S. Treasury prevailing rate of exchange. Due to system limitations that preclude revaluation at period-end, the rate of latest purchase is used as an approximation.

Nonentity Other than Intragovernmental Accounts Receivable are from cancelled year appropriations and interest receivables. Collections related to these receivables will be returned to the U.S. Treasury as miscellaneous receipts.

See Note 1.H for additional information.

Note 3. Fund Balance with Treasury

As of September 30 *(Amounts in thousands)*		2023		2022
1. Unobligated Balance:				
A. Available	$	29,569,104	$	29,445,473
B. Unavailable		8,300,394		8,775,787
C. Total Unobligated Balance	$	37,869,498	$	38,221,260
2. Obligated Balance not yet Disbursed	$	141,823,496	$	131,114,022
3. Non-Budgetary FBWT:				
A. Clearing accounts		8,716		(24,649)
B. Deposit funds		843,347		974,507
C. Non-entity and other		10,501		11,549
D. Total Non-Budgetary FBWT	$	862,564	$	961,407
4. Non-FBWT Budgetary Accounts:				
A. Investments - Treasury Securities	$	(3,518)	$	(3,424)
B. Unfilled Customer Orders without Advance		(32,231,074)		(43,718,480)
C. Receivables and Other		(3,420,616)		(5,624,894)
D. Total Non-FBWT Budgetary Accounts	$	(35,655,208)	$	(49,346,798)
5. Total FBWT	$	144,900,350	$	120,949,891

Status of Fund Balance with Treasury

The Status of FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current and future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists of funds temporarily precluded from obligation by law which are held by U.S. Treasury. Unobligated balances include balances in expired appropriations that are available only for approved adjustments to prior obligations. 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 the public law that established the funds.

Obligated Balance Not Yet Disbursed represents funds against which budgetary obligations have been incurred for goods and services, but disbursements have not been made.

Non-budgetary FBWT includes accounts with no corresponding budgetary authority and therefore not included within unobligated balances above, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT.

Non-FBWT Budgetary Accounts reduce the Status of FBWT but have no impact on FBWT and must therefore be deducted from the Status of FBWT. Examples include unfilled customer orders without advance, reimbursements and other income earned-receivable, and investment accounts.

The FBWT reported in the Army GF financial statements has been reconciled to the Army GF's balance as reported by Treasury. The differences between FBWT in the Army GF'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 Army GF's general ledger as a result of timing differences or the inability to obtain complete accounting information prior to the issuance of the financial statements.

In FY 2023, the Army transferred approximately $3.7 billion in unused funds to the Department of Treasury, Miscellaneous Receipts account from General Fund Treasury Account Symbols that cancelled on September 30, 2023.

Note 4. Cash and Other Monetary Assets

As of September 30 *(Amounts in thousands)*	2023	2022
1. Cash	$ 323,700	$ 242,966
2. Foreign Currency	236,553	433,286
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 560,253	$ 676,252

Cash and Other Monetary Assets are nonentity assets and by nature the Army GF may not obligate against these assets. See Note 2, *Nonentity Assets*, for additional information regarding Cash and Other Monetary Assets.

Foreign currency is required to be valued using the U.S. Treasury prevailing rate of exchange as of the financial statement date. Due to current system limitations that preclude revaluation at period-end, the rate of latest purchase is used as an approximation.

Note 5. Investments and Related Interest

As of September 30 (Amounts in thousands)	2023					
	Cost	Amortized (Premium)/ Discount	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value Disclosure
1. Intragovernmental Securities						
A. Nonmarketable, Market-Based						
i. Gift Funds	$ 3,518	$ 52	$ 2	$ 3,572	$ 68	$ 3,640
B. Accrued Interest	-	-		-		-
C. Total Intragovernmental Securities	$ 3,518	$ 52	$ 2	$ 3,572	$ 68	$ 3,640

As of September 30 (Amounts in thousands)	2022					
	Cost	Amortized (Premium)/ Discount	Interest Receivable	Investments, Net	Unrealized Gain/(Loss)	Market Value Disclosure
1. Intragovernmental Securities						
A. Nonmarketable, Market-Based						
i. Gift Funds	$ 3,423	$ 22	$ -	$ 3,445	$ 16	$ 3,461
B. Accrued Interest	-	-		-		-
C. Total Intragovernmental Securities	$ 3,423	$ 22	$ -	$ 3,445	$ 16	$ 3,461

Information Related to Investments and Related Interest

Investments and Related Interest are comprised of the Army Gift Fund. The Army Gift Fund, a fund from dedicated collections, was established to control and account for the disbursement and use of monies donated to the Army GF along with interest received from the investment of such donations. The related earnings are allocated to the appropriate Army GF activities to be used in accordance with the directions of the donor. These funds are recorded as Nonmarketable Market-Based U.S. Treasury Securities, which are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. The amortization method used is the effective interest rate.

See Note 18, *Funds from Dedicated Collections*, for detail regarding funds from dedicated collections.

Note 6. Accounts Receivable, Net

As of September 30 (Amounts in thousands)	2023		
	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 1,481,463	$ (1,657)	$ 1,479,806
2. Other than Intragovernmental	$ 4,786,344	$ (175,004)	$ 4,611,340
3. Total Accounts Receivable	$ 6,267,807	$ (176,661)	$ 6,091,146

As of September 30 (Amounts in thousands)	2022		
	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 2,256,614	$ (1,841)	$ 2,254,773
2. Other than Intragovernmental	$ 4,781,972	$ (119,412)	$ 4,662,560
3. Total Accounts Receivable	$ 7,038,586	$ (121,253)	$ 6,917,333

Accounts Receivable represent the Army GF's claim for payment from other entities. Intragovernmental receivables report amounts outstanding to be received from other federal agencies; other than intragovernmental amounts report corresponding amounts owed from all other, nonfederal parties. Amounts reported reflect their net realizable values.

The Army GF recognizes an allowance for doubtful accounts (estimated uncollectible amounts) for accounts receivable for both intragovernmental and other than intragovernmental. The allowance for uncollectible amounts for accounts receivable for both intragovernmental and other than intragovernmental accounts receivable are derived by applying specific percentages by aging category, based on uncollectible balances over the preceding 36 months, and adjusted accordingly each quarter based on the remaining outstanding balance for each time period at fiscal year-end.

Note 7. Loans Receivable, Net and Loan Guarantee Liabilities

Not Applicable

Note 8. Inventory and Related Property

As of September 30 *(Amounts in thousands)*	2023	2022
1. Operating Materiel & Supplies	$ 45,136,550	$ 44,250,350
2. Total	$ 45,136,550	$ 44,250,350

Operating Materiel and Supplies

As of September 30 *(Amounts in thousands)*	2023 OM&S	2023 Valuation Method
1. OM&S Categories		
A. Held for Use	$ 39,239,723	Standard Price
B. Held in Reserve for Future Use	2,869,957	Standard Price
C. Held for Repair	3,026,870	Standard Price
D. Excess, Obsolete, and Unserviceable	-	NRV
E. Total OM&S	$ 45,136,550	

*NRV = Net Realizable Value

As of September 30 *(Amounts in thousands)*	2022 OM&S	2022 Valuation Method
1. OM&S Categories		
A. Held for Use	$ 37,712,101	Standard Price
B. Held in Reserve for Future Use	3,130,814	Standard Price
C. Held for Repair	3,407,435	Standard Price
D. Excess, Obsolete, and Unserviceable	-	NRV
E. Total OM&S	$ 44,250,350	

*NRV = Net Realizable Value

The Army GF reports OM&S in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. There are no restrictions on OM&S.

Managers determine which items are costlier to repair than to replace, or those that are hazardous and/or unrepairable, and the value of these items are reported as unserviceable within the overall excess, obsolete, and unserviceable category. OM&S stocks that exceed the amount expected to be used in normal operations and are not held in reserve for future use are considered excess. Army GF incorporates a series of analyses based on current OM&S stocks in combination with current and contingent operational conditions to make this assessment. Materiel that are no longer needed, relevant, or usable due to changes in technology, laws, customs, or operations are considered obsolete. All items assigned attributes to be reflected within the excess, obsolete, and unserviceable category are valued at their estimated net realizable value (NRV).

As a result of the Army GF performing a series of analyses over OM&S items, e.g., materiel required for the period, relevant cost, and availability of materiel in the future, those items not identified as excess can be aligned to the OM&S held in reserve for future use population, provided that they have been assigned specific condition codes. Items in these condition codes are held pending determination of use or resolution of suspension and may be used in specific emergency or other specified instances or otherwise eventually deemed usable and needed, although not necessarily in the normal course of operations.

For OM&S EOU items, Army GF has determined their estimated NRV to be $0. Army GF confirms this assessment on an annual basis. For the year ended FY 2023, Army GF has recognized a loss of approximately $233.9 million for Army-owned OM&S assets that have entered into OM&S EOU from OM&S Held for Use, OM&S Held in Reserve for Future Use, and OM&S Held for Repair.

Note 9. General Property, Plant and Equipment, Net

Major General PP&E Asset Classes

As of September 30 *(Amounts in thousands)*	2023 Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes				
A. Land (see narrative)				
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 112,112,501	$ (53,297,687)	$ 58,814,814
C. Leasehold Improvements	Lease term	-	-	-
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Note**	192,236,006	(127,000,212)	65,235,794
F. Construction-in- Progress	N/A	4,583,954	-	4,583,954
G. Other	N/A	-	-	-
H. Total General PP&E		$ 309,434,179	$ (180,504,136)	$ 128,930,043

As of September 30 *(Amounts in thousands)*	2022 Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes				
A. Land (see narrative)				
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 110,121,719	$ (51,808,732)	$ 58,312,987
C. Leasehold Improvements	Lease term	-	-	-
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Note**	192,892,103	(119,308,796)	73,583,307
F. Construction-in- Progress	N/A	4,287,067	N/A	4,287,067
G. Other	N/A	-	-	-
H. Total General PP&E		$ 307,802,607	$ (171,323,765)	$ 136,478,842

* Depreciation method (where applicable) = Straight Line

** Note: Useful lives range from 2 to 50 years

General PP&E, Net – Summary of Activity

As of September 30 *(Amounts in thousands)*	2023
General PP&E, net, beginning of year	$ 136,478,842
Acquisitions	14,025,010
Depreciation/Amortization	(16,801,641)
Disposals/Transfers/Revaluations	(4,772,168)
Other	-
General PP&E, net, end of year	$ 128,930,043

As of September 30 *(Amounts in thousands)*	2022
General PP&E, net, beginning of year	$ 143,615,684
Acquisitions	16,199,095
Depreciation/Amortization	(18,107,392)
Disposals/Transfers/Revaluations	(5,228,545)
Other	-
General PP&E, net, end of year	$ 136,478,842

General PP&E

The Army GF has no restrictions on the use or convertibility of General PP&E.

The Army GF does not partially impair general equipment assets and therefore does not disclose impairment loss for assets. Real property assets can be considered partially impaired due to permanent damages. As such, these are flagged as no intent to repair or to be marked for eventual disposal.

As of September 30, 2023, the Army GF owned 11,618,240 acres of land and 599,501 leased acres for a total of 12,217,741 acres in land rights. As of September 30, 2022, the Army GF reported 11,036,148 acres of land and leased 8,389,493 acres for a total of 19,425,641 acres in land rights. The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information.

Heritage Assets and Stewardship Land Information

The Army GF is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2023 due to limitations of the Army GF's financial and nonfinancial management processes and systems.

Relevance to Army Mission

The Army GF has stewardship responsibilities for heritage assets that date not only from the military history of the land, but also from prior historic occupations. The Army GF relies upon heritage assets, such as historic buildings and stewardship land, for daily use in administering, housing, and training Soldiers. Heritage assets not currently employed as multi-use, such as archeological collections or museum collections, are items that embody the multi-faceted history of the land, the military, the local communities, and the Nation. In that mission, the Army GF, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheets as multi-use heritage assets (capitalized and depreciated).

Stewardship Policy

SFFAS 29, *Heritage Assets and Stewardship Land*, requires note disclosures for these types of assets. The Army GF's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Heritage Asset Categories

Buildings and Structures – Buildings and structures, including multi-use heritage assets which are listed on, or eligible for listing on, the National Register of Historic Places in accordance with Section 110, *National Historical Preservation Act*.

Archaeological Sites – Sites that have been identified, evaluated, and determined to be eligible for, or are listed on, the National Register of Historical Places in accordance with Section 110, *National Historical Preservation Act*.

Museum Collection Items – Items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

Heritage Asset Category	As of Oct 1, 2022	Increase	Decrease	As of Sept 30, 2023
Buildings and Structures	17,096	538	(2,113)	15,521
Archaeological Sites	10,969	386	-	11,355
Museum Collection Items	570,961	934	(4,654)	567,241

Heritage Asset Category	As of Oct 1, 2021	Increase	Decrease	As of Sept 30, 2022
Buildings and Structures	17,171	292	(367)	17,096
Archaeological Sites	10,800	169	-	10,969
Museum Collection Items	579,928	1,496	(10,463)	570,961

Acquisition and Withdrawal of Heritage Assets

Buildings and structures become eligible for listing in the National Register when they become 50 years old. They are determined eligible for listing on the National Register of Historic Places in conjunction with the State Historic Preservation Officer, or through an official Determination of Eligibility from the Keeper of the National Register, against the eligibility criteria in the *National Historic Preservation Act* (NHPA). The increase of 538 buildings is due to Army infrastructure aging into eligibility for the National Register. The decrease of 2,113 buildings is due to disposal of Army infrastructure that previously aged into eligibility for the National Register.

Archaeological sites are determined eligible for listing on the National Register of Historic Places in conjunction with the State Historic Preservation Officer, or through an official Determination of Eligibility from the Keeper of the National Register, against the eligibility criteria in NHPA. The increase of 386 National Register-eligible archaeological sites is due to additional surveys that identified eligible archaeological sites and previously recorded sites that have been newly determined eligible or listed in the current FY and for which a determination of eligibility has been made.

Increases in the Army Museum Collection mostly represent the number of artifacts gifted or transferred to the Army. A small portion of this number represents data clean up including objects found in collection (on installation) without documentation and reactivation of records of artifacts previously processed as missing but found during subsequent inventory.

Decreases to the Army Museum Collection mostly represent artifacts determined as irrelevant or excess to the Army's mission and were appropriately transferred or disposed. The U.S. Army Center of Military History executed all transfers to other federal entities. Defense Logistics Agency or General Services Administration handled all dispositions or transfers of assets to qualified, non-federal entities. A small portion of this number represents data clean up across the Army Museum Enterprise.

Deferred Maintenance and Repair

For information on the condition of heritage assets, to include Stewardship Land, refer to the *Required Supplementary Information* section of the report.

Note 10. Other Assets

As of September 30 *(Amounts in thousands)*	2023		2022	
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	195,568	$	85,724
B. Total Intragovernmental Other Assets	$	195,568	$	85,724
2. Other than Intragovernmental Other Assets				
A. Outstanding Contract Financing Payments	$	9,691	$	9,691
B. Advances and Prepayments		423,744		2,132,097
C. Subtotal Other than Intragovernmental Other Assets		433,435		2,141,788
D. Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"		(433,435)		(2,141,788)
E. Net Other than Intragovernmental Other Assets	$	-	$	-
3. Total Other Assets	$	195,568	$	85,724

Advances and Prepayments

Advances and prepayments to both federal entities and with the public entities are made by the Army GF to cover certain periodic expenditures before those expenses are incurred, or for goods and services to provide for future benefits over a specified time period. They apply when it is the generally accepted industry practice to pay for items in advance of the service being provided and the prepayment is authorized by Army GF.

Outstanding Contract Financing Payments

As defined within the *Federal Acquisition Regulation*, Part 32, *Contract Financing*, paragraph 32.001, a contract financing payment is an authorized Government disbursement of monies to a contractor prior to acceptance of supplies or services by the Government, and may include:

(i) Advance payments;
(ii) Performance-based payments;
(iii) Commercial advance and interim payments;
(iv) Progress payments based on cost;
(v) Progress payments based on a percentage or stage of completion; and
(vi) Interim payments under a cost reimbursement contract.

Contract financing payments include specific types of payments that convey certain rights to the Army GF that protect the contract work from state or local taxation; liens or attachment by the contractors' creditors; transfer of property; or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Army GF. The Army GF does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army GF is not obligated to make payment to the contractor until delivery and acceptance.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30 *(Amounts in thousands)*	2023	2022
1. Intragovernmental Liabilities		
A. Accounts Payable	$ -	-
B. Other	254,599	$ 251,177
C. Total Intragovernmental Liabilities	$ 254,599	$ 251,177
2. Other than Intragovernmental Liabilities		
A. Accounts Payable	$ 2,357,314	$ 2,272,808
B. Federal Employee and Veteran Benefits Payable	5,465,046	5,574,139
C. Environmental and Disposal Liabilities	35,172,345	34,066,609
D. Other Liabilities	4,160,787	3,006,791
E. Total Other than Intragovernmental Liabilities	$ 47,155,492	$ 44,920,347
3. Total Liabilities Not Covered by Budgetary Resources	$ 47,410,091	$ 45,171,524
4. Total Liabilities Covered by Budgetary Resources	$ 10,747,058	$ 10,856,745
5. Total Liabilities Not Requiring Budgetary Resources	$ 1,489,197	$ 1,017,328
6. Total Army GF Liabilities	$ 59,646,346	$ 57,045,597

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

Intragovernmental Liabilities, Other, consists of the unfunded FECA liability of $172.6 million, liabilities related to the Judgment Fund of $56.6 million, and $25.4 million of other unfunded employment-related liabilities, as of September 30, 2023, and of the unfunded FECA liability of $172.5 million, liabilities related to the Judgment Fund of $49.3 million, and $29.3 million of other unfunded employment-related liabilities, as of September 30, 2022.

Other than Intragovernmental Liabilities Accounts Payable represent amounts that are related to canceled appropriations. These amounts will require resources funded from future-year appropriations, which will be paid from funds available for obligation and outlay in the respective years.

Federal employee and veteran benefits payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities are comprised of accrued unpaid annual leave of $4.6 billion and the actuarial FECA benefits liability of $0.9 billion as of September 30, 2023 and accrued unpaid annual leave of $4.5 billion and the actuarial FECA benefits liability of $1.1 billion as of September 30, 2022. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details and disclosures.

Environmental and Disposal Liabilities represent the Army GF's liability for existing and anticipated environmental cleanup and disposal (see Note 14, *Environmental and Disposal Liabilities*).

Certain Environmental and Disposal Liabilities, as well as Federal employee and veteran benefits payable, contingent liabilities and Accounts Payable from Canceled Appropriations are not covered by budgetary resources because there are no current or immediate appropriations available for liquidation. These liabilities will require resources funded from future-year appropriations.

Other than Intragovernmental, Other Liabilities consists primarily of $1.9 billion in conventional munitions disposal, $1.1 billion in contracted Army cadet scholarship liabilities, and $1.2 billion in contingent legal liabilities as of September 30, 2023, and

$1.6 billion in conventional munitions disposal, $1.0 billion in contracted Army cadet scholarship liabilities, and $0.4 billion in contingent legal liabilities as of September 30, 2022 (see Note 15, *Other Liabilities*).

Liabilities not requiring budgetary resources in both fiscal years 2023 and 2022 consist of those recorded for deposit funds and suspense accounts.

Note 12. Federal Debt and Interest Payable

Not Applicable

Note 13. Federal Employee and Veteran Benefits Payable

As of September 30	2023		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 910,033	$ -	$ 910,033
B. Other	5,013,812	(458,799)	4,555,013
C. Total Other Benefits	$ 5,923,845	$ (458,799)	$ 5,465,046
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet):	$ 5,923,845	$ (458,799)	$ 5,465,046
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 1,182,380	$ (984,391)	$ 197,989
4. Total Federal Employee and Veteran Benefits Payable	$ 7,106,225	$ (1,443,190)	$ 5,663,035

As of September 30	2022		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,077,839	$ -	$ 1,077,839
B. Other	4,943,790	(447,490)	4,496,300
C. Total Other Benefits	$ 6,021,629	$ (447,490)	$ 5,574,139
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet):	$ 6,021,629	$ (447,490)	$ 5,574,139
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 440,953	$ (239,108)	$ 201,845
4. Total Federal Employee and Veteran Benefits Payable	$ 6,462,582	$ (686,598)	$ 5,775,984

Other Benefits consist primarily of accrued unfunded leave ($5.0 billion) and employer contributions and payroll taxes payable ($0.5 billion), of which only payroll taxes have reportable assets to pay benefits.

Federal Employees' Compensation Act (FECA)

Actuarial Cost Method

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 benefit payments have been discounted to present value based on interest rate assumptions on the U.S. Treasury's Yield Curve for U.S. Treasury Nominal Coupon Issues (TNC Yield Curve) to reflect the average duration of income payments and medical payments.

Assumptions

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPI-M). The actual rates for these factors for charge back year (CBY) 2022 were also used to adjust the methodology's historical payments to current year constant dollars. The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. COLA and CPI-M provided by the DOL are also applied to the calculation of projected future benefits. The estimated actuarial liability is updated only at the end of each fiscal year.

Interest rate assumptions utilized for discounting were as follows:

2023 Discount Rates
For wage benefits:
2.326% in Year 1 and years thereafter.
For medical benefits:
2.112% in Year 1 and years thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPI-Ms were applied to the calculation of projected future benefits. The actual rates for these factors for the chargeback year (CBY) 2023 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2023	N/A	N/A
2024	4.04%	3.25%
2025	4.29%	3.21%
2026	4.38%	3.51%
2027	4.13%	3.87%
2028	3.13%	4.03%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2021 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2021 projection to the average pattern for the projections of the most recent three years.

2022 Discount Rates
For wage benefits:
2.119% in Year 1 and years thereafter.
For medical benefits:
1.973% in Year 1 and years thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPI-Ms were applied to the calculation of projected future benefits. The actual rates for these factors for the CBY 2022 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2022	N/A	N/A
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%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2021 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2021 projection to the average pattern for the projections of the most recent three years.

Other Disclosures

DFAS Financial Reporting – Audited Financial Statements Division provides updated Army actuarial liabilities during the fourth quarter of each fiscal year. The Army GF portion of the total Army actuarial liability is based on the FECA expense as reported by the DOL.

Note 14. Environmental and Disposal Liabilities

As of September 30 *(Amounts in thousands)*	2023	2022
1. Environmental Liabilities		
A. Accrued Environmental Restoration Liabilities		
i. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 3,458,022	$ 3,786,720
ii. Active Installations—Military Munitions Response Program (MMRP)	1,793,414	1,773,121
iii. Formerly Used Defense Sites—IRP and BD/DR	3,535,977	3,559,451
iv. Formerly Used Defense Sites—MMRP	10,564,530	9,875,904
B. Other Accrued Environmental Liabilities—Non-Base Realignment and Closure (BRAC)		
i. Environmental Corrective Action	4,835,352	4,455,699
ii. Environmental Closure Requirements	1,468,630	6,908,891
iii. Environmental Response at Operational Ranges	-	-
iv. Asbestos	2,995,932	2,700,573
v. Other	8,149	-
C. Base Realignment and Closure Installations		
i. Installation Restoration Program	1,176,001	1,038,099
ii. Military Munitions Response Program	961,816	869,110
iii. Environmental Corrective Action / Closure Requirements	463,602	386,897
D. Military Equipment and Weapons Program		
i. Nuclear Powered Military Equipment / Spent Nuclear Fuel	5,193,542	-
E. Red Hill Response		
i. Community Involvement	3,163	-
2. Total Environmental Liabilities	$ 36,458,130	$ 35,354,465

Types of Environmental and Disposal Liabilities (E&DL) Identified

The Army GF's Environmental & Disposal Liability (E&DL) consists of both event-driven and asset-driven liabilities. Event-driven liabilities address past releases of contamination to the environment that require future cleanup. Asset-driven liabilities include the environmental disposal costs incurred at the end of an asset's useful life for General PP&E. The Army GF addresses cleanup of contamination resulting from previous waste disposal practices, leaks, spills, and other past activities. This cleanup requirement applies to releases of hazardous substances and wastes that create risk to public health and/or environment or risk caused by exposure to unexploded ordnance, discarded military munitions, and munitions constituents at sites other than active operational ranges. However, cleanup costs related to hazardous substances that migrated off operational ranges are included in the liability. The Army GF's E&DL are reported in three general categories:

A. Accrued Environmental Restoration Liabilities [Active Installations and Formerly Used Defense Sites (FUDS)];
B. Other Accrued Environmental Liabilities (Non-BRAC); and
C. Base Realignment and Closure (BRAC) Installations.

The Army GF addresses event-driven liabilities for 1) Accrued Environmental Restoration Liabilities under the Defense Environmental Restoration Program (DERP) including Active Installations, Base Realignment and Closure (BRAC), and

Formerly Used Defense Sites (FUDS); 2) Environmental Corrective Actions to include the Compliance-Related Cleanup (CC) Program, or corrective actions, not covered by DERP; 3) Chemical Weapons Disposal Program; and 4) Red Hill Response.

As of FY 2023, the Army GF separated asset-driven liabilities for closure and disposal under 1) Environmental Closure Requirements on Line 1.B.ii which includes: Resource Conservation Recovery Act (RCRA) Hazardous Waste Facilities, Landfills, asbestos wrapping on steam pipes, underground storage tanks (USTs), aboveground storage tanks (ASTs), above (ABV) and underground (UNDR) piping associated with storage tanks, and other asset closures; 2) Asbestos on Line 1.B.iv which includes buildings and structures with Asbestos Containing Material (ACM) or Other Regulated Material (ORM); 3) Environmental Requirements for Operational Ranges on Line 1.B.iii which includes inactive ranges and Open Burn/ Open Detonation (OB/OD) units; 4) Other Non-BRAC on Line 1.B.v including operational landfills; and 5) Nuclear Powered Equipment / Spent Nuclear Fuel on Line 1.D.i to include Nuclear Regulatory Commission (NRC) license holders (previously low-level radioactive waste) and the decommissioning of nuclear reactors.

For each category, the E&DL reflects the estimated future work required to address legal and environmental disposal requirements.

Applicable Laws and Regulations

This section provides the guidance, policies, laws, and regulations that govern the development and reporting of the environmental and disposal liabilities.

The DERP statute was established by Section 211 of the *Superfund Amendments and Reauthorization Act* (SARA) of 1986 codified in Title 10 of the United States Code (U.S.C.) 2700 et. seq. For Active Army installations, DERP eligibility requirements will determine whether liabilities are reported under line 1.A or 1.C. The Army GF also reports remediation costs resulting from waste disposal practices, leaks, and spills governed by DoD Instruction (DoDI) 4715.05, E*nvironmental Compliance at Installations Outside the United States*; DoDI 4715.06, *Environmental Compliance in the United States*; and other activities at overseas locations in accordance with DoDI 4715.08, *Remediation of Environmental Contamination Outside the United States*, under the Compliance Cleanup Program. Cleanup sites located overseas that qualify for cleanup cannot be part of an imminent installation/site handover to host nation governments where a residual value determination may occur as part of the turnover.

Applicable laws and regulations addressing environmental restoration and asset closure include:

- Army Regulation (AR) 50-7, *Army Reactor Program*
- AR 200-1, *Environmental Protection and Enhancement*
- DODM 4715.20, *Defense Environmental Restoration Program (DERP) Management*
- *Comprehensive Environmental Response, Compensation, and Liability Act* (CERCLA)
- *Superfund Amendments and Reauthorization Act* (SARA)
- *Resource Conservation and Recovery Act* (RCRA)
- *Toxic Substances Control Act* (TSCA)
- *Low-Level Radioactive Waste Policy Act* (LLRWPA)
- *Asbestos Hazard Emergency Response Act* (AHERA)
- *Atomic Energy Act* (AEA)
- U.S. Department of Energy, Nuclear Regulatory Commission Regulations (NUREG) – (e.g. *NUREG 1757 - Consolidated Decommissioning Guidance* and NUREG CR6477 - *Revised Analyses of Decommissioning Reference Non-Fuel-Cycle Facilities*)

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Army GF uses one or more of the following cost estimating approaches: parametric cost estimates using the Remedial Action Cost Engineering Requirements (RACER®) software, site- specific cost estimate in a feasibility study (FS) or corrective measures study (CMS), cost estimate from a similar site (e.g., FS or CMS), engineering estimates, historical costs, or awarded contract information including contract options are awarded but not exercised. For recurring actions, such as sites in a remedial operation or long-term management (LTM) phase, cost estimates will rely on historical cost data to generate the estimate. When engineering estimates are used to develop cost projections, these estimates must be informed by documented assumptions and supported by contracts, invoices, or actual costs on similar completed sites. In circumstances where historical costs or other engineering estimates are not available, RACER® may be used to calculate an initial estimate or supplement portions of other estimates. Army uses the Headquarters Army Environmental System (HQAES) or the FUDS Management Information System (FUDSMIS) to record and report the event-driven cost estimates once calculated.

At Joint Base Cape Cod (JBCC), both the Army GF and Air Force have event-driven liabilities from previous activities that will require future environmental cleanup. Before being specifically identified the contaminants became comingled across multiple responsible parties. As a National Priority List site, CERCLA requires the DoD (Army GF and Air Force) to enter into a Federal Facility Agreement (FFA). Army GF is a Potentially Responsible Party (PRP). As the Air Force conducts environmental site remediation, an apportioned allocation of the total cleanup costs incurred is assigned to Army GF. The Army GF includes all future apportioned costs paid to the Air Force as part of its environmental liability for JBCC.

The Army GF includes unliquidated obligations (ULOs) which represent the total amount of obligated funding associated with environmental liability cleanup not yet expensed as of the end of a given fiscal year. Army reports open ULOs across the active years of the specific appropriations. However, Army does not report ULOs for asset-driven liabilities as those liabilities only exist due to the presence of the assets; asset removal is not paid for with environmental appropriations and remaining contamination beyond the asset removal would constitute an event-driven liability.

GFEBS and Planning Resource for Infrastructure Data and Evaluation (PRIDE) as the accountable property systems of record (APSRs) are the sources of asset data used to develop the E&DL estimates for Army assets, except for non-APSR assets, NRC licenses, and nuclear reactors. The non-APSR asset inventory comes from Army's G-9 Annual Environmental Quality (EQ) data call. The Army Safety Office (ASO) and the United States Army Nuclear and Countering Weapons of Mass Destruction Agency (USANCA) track the Army's NRC Licenses and nuclear reactors, respectively, for radioactive materials.

The Army uses RACER® software to estimate liabilities for aboveground and underground storage tanks, tank piping, and steam piping. Cost estimates for storage tank closure are developed considering the size of tank. RACER cost estimates are developed for various sizes within the tank inventory. The length of the piping is used to calculate the piping estimates. The cost estimates are adjusted using area cost factors when reporting the tank or piping E&DL. To account for location variance, the liabilities are reported in aggregate and adjusted for area cost variations using the USACE ACFs published annually.

The Army also uses RACER® software to estimate environmental closure liabilities for landfills. Landfill estimates use permit closure requirements and federal or state solid waste closure requirements. The future closure costs for operating landfills consider the type of landfill [e.g., hazardous waste, sanitary, municipal, construction and demolition debris (C&D)], acreage, and location. The reported environmental liability also includes post-closure requirements for operational landfills or uses the historic cost of post-closure requirements to project the liability.

RCRA Hazardous Waste liabilities are associated with the Treatment, Storage, or Disposal Facility (TSDF) for hazardous materials or waste. These facilities are part of the Army's industrial base where certain processes require treatment, storage, management, and/or disposal of hazardous materials or waste in a fashion that prevents discharge to the environment. The Army utilizes the RACER® software to estimate closure liabilities at time of closure.

Asset-driven liabilities for facility closures/disposal include the environmental costs associated with a building abatement and are made up of the costs for asbestos and Other Regulated Materials (ORM). For asbestos, the costs include a cost for pre-demolition surveys and a cost for potential abatement.

ORM covers all other environmentally regulated materials that would need to be removed and properly disposed of as part of the building closure and the cost for the environmental survey. The historical costs to support the estimating model are taken from various sites located within the United States and updated annually. The costs for the historical contracted demolitions are leveraged to establish a Unit Cost Factor (UCF) for asbestos and ORM. UCFs are applied to asset inventory data to develop environmental closure liabilities. Liabilities for individual building demolition will vary depending on location. To account for such environmental related building closure, liabilities are reported in aggregate and adjusted for area cost variations.

The Army does not recognize E&DL for active operational ranges because the liability is not measurable due to the munitions rule. The munitions rule provides that munitions used for their intended purpose are not a solid waste; thus, as the munitions on the operational ranges are not solid waste they cannot, by the RCRA statute, be a hazardous waste. As of FY 2023, the Army also does not report E&DL for active OB/OD unit. In the event the Army closes a current operational range or OB/OD unit, the Army will perform a full environmental assessment and report the E&DL, as appropriate.

Army NRC license holders are regulated under the *Low-Level Radioactive Waste Policy Act*, and disposal is conducted in accordance with U.S. NRC regulations. Engineering estimates, leveraging the NRC regulation, are used to develop the NRC license holder estimates.

The Army also has specialized facilities that require unique closure requirements. The decommissioning of deactivated nuclear reactors requires extensive closure requirements in accordance with AR 50-7. Although these facilities are not under the jurisdiction of the NRC, the Army adheres to the substantive requirements of the NRC regulations. The estimation process requires a detailed engineering study and financial analysis to report the decommissioning and disposal costs.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General Property, Plant and Equipment (PP&E)

Unrecognized cleanup costs are based on the remaining useful life allocated to future periods where the PP&E is in service. These costs, which are separated for asset-driven E&DL, are not included in the current liability. The unrecognized costs amounted to $144 million as of September 30, 2023 compared with $215 million as of September 30, 2022. The recognized amounts are included in the Environmental Closure Requirements (Line 1.B.ii) and Asbestos (Line 1.B.iv) over the useful life of certain classes of assets.

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

The Army GF estimates are updated annually to reflect changes in previously unknown information, re-estimation based on different assumptions, price growth (inflation), increases in labor rates and materials, and lessons learned.

Environmental liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advancements in technology. Environmental liabilities may also change due to updated criteria and revised financial reporting requirements for determining current categories on the disclosure.

All environmental liabilities as of September 30, 2023 and 2022 are stated in FY 2023 and 2022 dollars, respectively. Future inflation could cause actual costs to be substantially higher than the recorded liability. The Army GF estimates as of FY 2023 were not substantially revised based on new cost estimating methodologies.

Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities

The E&DL is an accounting estimate, which requires certain professional judgment and assumptions that are believed to be reasonable based upon information available to the Army GF at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated. The E&DL can be further impacted if the investigation of environmental sites discloses contamination levels different than known at the time of the estimates.

The Army GF is investigating sites where Per- and polyfluoroalkyl substances (PFAS) containing materials may have been used, stored, or disposed. Depending on program eligibility, the future outflows of financial resources are reported on lines 1.A.i, 1.A.iii, 1.B.i, or 1.C.i. The Army GF is currently reporting PFAS requirements through the Decision Document, to include possible interim actions, as required by the probable and reasonably estimable provisions provided in FASAB Technical Release 2.

The Army GF reports asbestos survey costs at the time of the building renovation or demolition. However, due to estimation uncertainty in identification of costs between friable and non-friable asbestos, the allocation of these costs are not reasonably estimable. Friable asbestos abatement estimates are based on historical costs of asbestos abatement during facility demolition.

The E&DL for some of the Army GF's asset-driven liabilities are dependent on the APSR and require certain technical judgments, historical cost information, and assumptions that are believed to be reasonable based upon information available at the time of calculating the estimates. Due to the dependencies on the APSRs, the asset-driven liability methodologies assume that the APSRs are accurate and the data used from these systems is up to date. Discrepancies, inaccuracies, and incompleteness of APSR data may cause the environmental liabilities for assets to be reported inaccurately on the Army's GF financial statements. The Army GF is also uncertain regarding the costs for cleanup associated with general and military equipment. While the liability is 'probable', the Army GF is still defining valuation methods to calculate general equipment disposal liabilities.

In 2022, the DoD issued a report on the Red Hill Response Cost Projections to inform Congress of DoD's known and projected costs to remediate and permanently close the Red Hill Bulk Fuel Storage Facility (RHBFSF) to comply with a State of Hawaii Emergency Order. The projections included allocations to the Army for Military Personnel and Operations & Maintenance (O&M). Army first reported liabilities associated with the RHBFSF environmental remediation in FY 2023. In 2023, the DoD issued draft policy on the reporting and disclosure of RHBFSF expenses. Based on the policy clarifications for the Community Involvement LOE, Army reported the probable and measurable Red Hill liability. The Army will design and document procedures and future methodologies to assess the impact of the Red Hill E&DL.

Note 15. Other Liabilities

As of September 30	2023		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Disbursing Officer Cash	$ 566,529	$ -	$ 566,529
B. Liabilities for Non-entity Assets	(3,343)	19,386	16,043
C. Other Liabilities	56,611	-	56,611
D. Subtotal	619,797	19,386	639,183
E. Other Liabilities Reported on Note 13	1,085,580	96,800	1,182,380
F. Total Intragovernmental Other Liabilities	$ 1,705,377	$ 116,186	$ 1,821,563
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 897,870	$ -	$ 897,870
B. Withholdings Payable	54,086	-	54,086
C. Liability for Non-fiduciary Deposit Funds and Undeposited Collections	913,952	-	913,952
D. Contract Holdbacks	98,330	-	98,330
E. Contingent Liabilities	69,331	1,088,255	1,157,586
F. Other Liabilities Without Related Budgetary Obligations	288,370	2,714,831	3,003,201
G. Other Liabilities With Related Budgetary Obligations	112	-	112
H. Total Other than Intragovernmental Other Liabilities	$ 2,322,051	$ 3,803,086	$ 6,125,137
3. Total Other Liabilities	$ 4,027,428	$ 3,919,272	$ 7,946,700

As of September 30	2022		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Disbursing Officer Cash	$ 679,170	$ -	$ 679,170
B. Liabilities for Non-entity Assets	-	12,832	12,832
C. Other Liabilities	49,332	-	49,332
D. Subtotal	728,502	12,832	741,334
E. Other Liabilities Reported on Note 13	346,188	94,765	440,953
F. Total Intragovernmental Other Liabilities	$ 1,074,690	$ 107,597	$ 1,182,287
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 1,818,781	$ -	$ 1,818,781
B. Withholdings Payable	53,202	-	53,202
C. Liability for Non-fiduciary Deposit Funds and Undeposited Collections	1,041,977	-	1,041,977
D. Contract Holdbacks	82,046	-	82,046
E. Contingent Liabilities	86,154	294,561	380,715
F. Other Liabilities Without Related Budgetary Obligations	381,788	2,244,288	2,626,076

As of September 30 *(Amounts in thousands)*	2022 Current Liabilities	 Noncurrent Liabilities	 Total
G. Other Liabilities With Related Budgetary Obligations	115	-	115
H. Total Other than Intragovernmental Other Liabilities	$ 3,464,063	$ 2,538,849	$ 6,002,912
3. Total Other Liabilities	$ 4,538,753	$ 2,646,446	$ 7,185,199

Advances from Others and Deferred Revenue (reported separately from Other Liabilities on the Balance Sheet)

As of September 30 *(Amounts in thousands)*	2023	2022
A. Intragovernmental	$ 27,138	$ 82,488
B. Other than Intragovernmental	659,754	536,685
Total Advances from Others and Deferred Revenue	$ 686,892	$ 619,173

Intragovernmental Other Liabilities

Disbursing Officer 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 Officer Cash is non-entity, restricted cash. Liabilities for non-entity assets represent liabilities for non-entity collections reported as custodial revenues in which the Army GF is acting on behalf of another Federal entity.

Other liabilities represent Judgment Fund liabilities. For information on Judgment Fund Liabilities, see Note 17, *Commitments and Contingencies*.

Other liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*, include (1) the Federal Employees' Compensation Act (FECA) Reimbursement to the Department of Labor which represents liabilities for billed amounts payable in the subsequent two fiscal years and unbilled amounts, including both incurred and an estimated accrual and (2) Employer Contributions and Payroll Taxes Payable, representing the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Other than Intragovernmental Other Liabilities

Accrued funded payroll and leave represents the estimated amount of liability for salaries and wages that has been earned but are as of yet unpaid.

Withholdings payable represent the amount withheld from employees' salaries for taxes, employee benefit contributions, wage garnishments and other withholdings.

Liability for Non-fiduciary Deposit Funds and Undeposited Collections represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

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

Contingent Liabilities include the accrual for various legal actions for which the Army Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss measurable.

Other Liabilities without related budgetary obligations include, for both fiscal years (1) the Munitions Non-Environmental Disposal ($1.9 billion), related to the final demilitarization disposition of munitions that are considered non-nuclear and which involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item; and (2) the accrued liability for contract Reserve Officers' Training Corps (ROTC) cadet scholarships ($1.1 billion).

Note 16. Leases

Entity as Lessee

As of September 30 (Amounts in thousands)	2023 Asset Category: Land and Buildings	Other	Total
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2024	$ 33,138	$ -	$ 33,138
2025	34,288	-	34,288
2026	35,496	-	35,496
2027	36,730	-	36,730
2028	38,009	-	38,009
After 5 Years	190,359	-	190,359
Total Intragovernmental Future Lease Payments Due	$ 368,020	$ -	$ 368,020
2. Other than Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2024	$ 237,187	$ 886	$ 238,073
2025	189,092	534	189,626
2026	150,434	150	150,584
2027	113,351	72	113,423
2028	66,665	72	66,737
After 5 Years	91,998	66	92,064
Total Future Lease Payments Due	$ 848,727	$ 1,780	$ 850,507
3. Total Future Lease Payments Due	$ 1,216,747	$ 1,780	$ 1,218,527

As of September 30, 2023, the Army GF has 4,924 non-cancelable operating leases of varying maturities from 1 to over 100 years. Many of these leases contain clauses to reflect inflation and renewal options. The Army GF has no assets under capital lease. Army GF operating leases consist mainly of offices, family housing, and buildings.

Entity as Lessor

As of September 30 (Amounts in thousands)	2023 Asset Category: Land and Buildings	Other	Total
Other than Intragovernmental Operating Leases			
Fiscal Year			
2024	$ 14,267	-	14,267
2025	11,920	-	11,920
2026	9,060	-	9,060
2027	6,985	-	6,985
2028	6,120	-	6,120
After 5 Years	27,080	-	27,080
Total Future Projected Receipts	$ 75,432	-	75,432

The Army GF has a small volume of operating leases as the lessor. Leases are granted to private companies and individuals to operate restaurants, cell towers and other business on Army GF installations.

Note 17. Commitments and Contingencies

The Army GF is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

Summary of Legal Contingent Liabilities

As of September 30, 2023 *(Amounts in thousands)*	Accrued Liabilities	Estimated Range of Loss Lower End	 Upper End
Legal Contingent Liabilities			
Probable	$ 1,157,586	$ 1,157,586	$ 2,162,336
Reasonably Possible	$ N/A	$ 172,526	$ 1,537,858

Summary of Legal Contingent Liabilities

As of September 30, 2022 *(Amounts in thousands)*	Accrued Liabilities	Estimated Range of Loss Lower End	 Upper End
Legal Contingent Liabilities			
Probable	$ 380,715	$ 380,715	$ 380,715
Reasonably Possible	$ N/A	$ 377,913	$ 2,732,420

The Army GF has accrued contingent liabilities for legal actions when an adverse decision is probable, and the amount of loss is measurable. In the event of an adverse judgment against the Federal Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Army GF reports contingent liabilities in Note 15, *Other Liabilities*.

The Army GF has other contingent liabilities for which the possibility of loss is considered reasonably possible. These liabilities are not accrued in the Army GF's financial statements. As of September 30, 2023, the Army GF had $3.3 billion in claims considered reasonably possible. As of September 30, 2022, the Army GF had $4.7 billion in claims considered reasonably possible.

As of September 30, 2023 and 2022, legal claims existed for which the estimated loss amount or the range of loss could not be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect the Army GF's financial position or results of operation.

Note 18. Funds from Dedicated Collections

As of September 30 *(Amounts in thousands)*	2023 Total Funds From Dedicated Collections	2022 Total Funds From Dedicated Collections
Balance Sheets		
1. Assets		
A. Fund balance with Treasury	$ 134,005	$ 117,248
B. Investments	3,572	3,445
C. Accounts and interest receivable	20	9,504
D. Other assets	-	-
E. Total assets	$ 137,597	$ 130,197
2. Liabilities and Net Position		
A. Accounts payable and other liabilities	9,877	7,825
B. Total liabilities	$ 9,877	$ 7,825
C. Cumulative results of operations	127,720	122,372
D. Total Liabilities and Net Position	$ 137,597	$ 130,197

For the years ended September 30 (Amounts in thousands)	2023 Total Funds From Dedicated Collections	2022 Total Funds From Dedicated Collections
Statements of Net Cost		
1. Program costs	$ 36,807	$ 29,666
2. Less earned revenue	(7,311)	(21,466)
3. Net program costs	$ 29,496	$ 8,200
4. Less earned revenues not attributable to programs	-	-
5. Net Cost of Operations	$ 29,496	$ 8,200
Statements of Changes In Net Position		
1. Net position beginning of the period	$ 122,372	$ 97,354
2. Donations and other non-exchange revenue	63,359	53,632
3. Other financing sources	(28,515)	(20,414)
4. Less: net cost of operations	(29,496)	(8,200)
5. Change in net position	$ 5,348	$ 25,018
6. Net position end of period	$ 127,720	$ 122,372

In accordance with SFFAS 43, *Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds*, the Army GF's policy is to display a combined presentation of the non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections with all other funds.

Funds from dedicated collections are financed by specifically identified revenues, required by statute to be used for designated activities or purposes, and remain available over time. The Army GF has identified the following such funds and their related statutory citations:

021X5095 – Wildlife Conservation, Military Reservations, Army. Funds are received from the sales of forest products harvested from forests on military installations and distributed to the respective states involved in the sales. Each state is entitled to 40% of the sales of products from its forest after reimbursement of Army GF appropriations for the costs of production. Title 16 U.S.C. 670b provides authority for this fund.

021X5098 – Restoration, Rocky Mountain Arsenal, Army. Funds are received from private industry for the cleanup of contaminated areas of Rocky Mountain Arsenal. Public Law (PL) 99-661, Section 1367, provides the authority for this explicit use.

021X5285 – Department of Defense, Forest Products Program, Army. Funds are received from the sale of forestry products produced on land owned or leased by the Army. Title 10 U.S.C. 2665 provides authority for this fund.

021X5286 – National Science Center, Army. Funds received from the collection of fees are used for the operation and maintenance of the National Science Center as authorized under PL 99-145, Defense Authorization Act, 1986, Section 1459.

021X5752 – Department of Defense Korean War Commemoration Fund, Army. Funds are used to support the commemorative program related to the 60th anniversary of the Korean War as authorized under PL 111-383, Section 574.

021X5756 - Department of Army Special Fund. Funds used to oversee the land sale / disposal of three U.S. Army owned parcels at the U.S. Army Natick Soldier Systems Center in the vicinity of Hudson, Wayland, and Needham, Massachusetts as authorized under PL 115-91 131 STAT 1283 and section 2844 of the FY 2018 Defense Authorization Act.

021X8063 – Bequest of Major General Fred C. Ainsworth to Walter Reed Army Medical Center. Funds received from interest on investments are used for purchasing supplies and equipment for the library at the Walter Reed Army Medical Center. A Joint Resolution of the 74th Congress dated May 23, 1935 is the statutory citation that provides authority for the use of this fund (49 Stat. 287).

021X8927 – Department of the Army General Gift Fund. Funds received from private parties and estates that are used for various purposes. Title 10 U.S.C. 2601 establishes the authority governing the use of this fund.

The U.S. Treasury securities are issued to the Army Gift Fund as evidence of its receipts and are an asset to the Army GF and a liability to the U.S. Treasury. The federal government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash generated from the Army Gift Fund is deposited in the U.S. Treasury, which uses the cash for general government purposes. Since the Army GF and the U.S. 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 U.S. Treasury securities provide the Army GF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Army GF requires redemption of these 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, repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all other expenditures.

Note 19. General Disclosures Related to the Consolidated Statements of Net Cost

Other Information Regarding Costs

The Statements of Net Cost (SNC) represent the net cost of programs and organizations of the Army GF 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 or organization administered by a responsible reporting entity.

Schedule of Cost and Revenue by Strategic Goal

For the year ended September 30 *(Amounts in thousands)*	2023 Consolidated	2022 Consolidated
Strategic Goals		
1. Readiness		
A. Gross costs	$ 160,478,258	$ 141,166,351
B. Less: earned revenue	(16,941,360)	(16,614,025)
C. Total net readiness costs	$ 143,536,898	$ 124,552,326
2. Transformation and Modernization		
A. Gross costs	$ 67,951,961	$ 82,701,990
B. Less: earned revenue	(22,074,908)	(45,735,312)
C. Total net modernization costs	$ 45,877,053	$ 36,966,678
3. Alliance and partnership		
A. Gross costs	$ (83,394)	$ 631,974
B. Less: earned revenue	28,332	(107,352)
C. Total net alliance and partnership costs	$ (55,062)	$ 524,622
4. People and families		
A. Gross costs	$ 5,300,366	$ 5,114,583
B. Less: earned revenue	(665,918)	(723,320)
C. Total net people and families costs	$ 4,634,448	$ 4,391,263
Other Goals		
A. Gross costs	$ (1,716,133)	$ 12,207,484
B. Less: earned revenue	-	-
C. Total net other costs	$ (1,716,133)	$ 12,207,484
Intra-entity elimination costs	9,600,690	(9,802,332)
Less: intra-entity earned revenue	(9,600,690)	9,802,332
Consolidated goals		
A. Gross costs	$ 222,330,368	$ 232,020,049
B. Less: earned revenue	(30,053,164)	(53,377,677)
C. Total net costs	$ 192,277,204	$ 178,642,372
(Gain)/loss on pension, ORB, or OPEB assumption changes (Note 15)	-	-
Net strategic goals, including assumption changes	192,277,204	178,642,372
Net cost of operations	$ 192,277,204	$ 178,642,372

Note: Intra-entity elimination totals reflect revenue/expense activity between Army GF's sub-entities (Army Active, Army Reserve, and Army National Guard) and reported within the above goals.

Note 20. Disclosures Related to the Consolidated Statement of Changes in Net Position

Cumulative Results of Operations, Other

Cumulative Results of Operations, Other primarily consist of gains and losses related to foreign currency fluctuations.

Appropriations Received

The FY 2023 Appropriations Received line item on the SCNP should not and will not agree with the Appropriations line item on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The $10.5 billion in FY 2023 Appropriations (Appropriations, SBR of $200,294 less Appropriations, SCNP of $189,806), and $6.0 billion difference in FY 2022 Appropriations, is due to additional resources included in the Appropriations line item on the SBR. See schedule below.

For the year ended September 30, 2023 *(Amounts in millions)*		Total
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		
1. Appropriations, Statement of Budgetary Resources	$	200,294
2. Appropriations received, Statement of Changes in Net Position		189,806
3. Total reconciling amount	$	10,488
4. Items reported as reductions to appropriations, Statement of Budgetary Resources		
A. Permanent reductions	$	(190)
B. Temporary adjustment		1
5. Items reported as reductions, Statement of Budgetary Resources		
A. Transfers		10,633
6. Items not reported as appropriations received on the Statement of Changes in Net Position		
A. Dedicated appropriations and earmarked receipts		44
7. Total reconciling items	$	10,488

Note 21. Disclosures Related to the Statements of Budgetary Resources

Net Adjustments to Unobligated Balances, Brought Forward

Net adjustments to FY 2023 unobligated balance brought forward increased by $20.9 billion over the FY 2022 end of year total primarily due to recoveries of prior year unpaid obligations.

Undelivered Orders at the End of the Period

Undelivered Orders presented in the SBR include Undelivered Orders-Unpaid for both direct and reimbursable funds.

For the years ended September 30 *(Amounts in thousands)*		2023		2022
1. Intragovernmental:				
A. Unpaid	$	41,993,231	$	33,671,896
B. Prepaid/advanced		574,248		361,625
C. Total intragovernmental	$	42,567,479	$	34,033,521
2. Other than Intragovernmental:				
A. Unpaid	$	91,078,517	$	88,363,627
B. Prepaid/advanced		433,436		2,141,788
C. Total Other than Intragovernmental	$	91,511,953	$	90,505,415
3. Total budgetary resources obligated for undelivered orders at the end of the period	$	134,079,432	$	124,538,936

Permanent Indefinite Appropriations

The following permanent indefinite appropriations are considered available for the Army GF and cover a wide variety of purposes to help the Army GF complete their mission:

- Department of the Army General Gift Fund (10 U.S.C. §2601(c)(1))
- Forest Program (10 U.S.C. §2665)
- Wildlife Conservation (16 U.S.C. §§670-670f)
- Ainsworth Bequest (31 U.S.C. §1321)
- Rocky Mountain Arsenal, Restoration [United States Statutes at Large, Volume 100, page 4003, section 1367 (100 Stat. 4003 §1367)]
- Medicare-Eligible Retiree Health Fund Contribution, Army (10 U.S.C. §1116)
- Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (10 U.S.C. §1116)
- Department of Defense Vietnam War Commemoration Fund, Defense (Public Law 110-181, 122 Stat. 141 §598)

Legal Arrangements Affecting the Use of Unobligated Balances

The Army GF has no legal arrangements that affect the use of unobligated balances of budget authority.

Explanation of Differences between the FY 2022 SBR and the Budget of the U.S. Government

(Amounts in millions)	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Agency Outlays	Explanation for reconciling differences
Combined Statement of Budgetary	$ 283,086	$ 244,866	$ (38)	$ 173,660	
Reconciling difference	$ 10,569	$ -	$ -	$ -	Less: schedule P, obligations "upward adjustments," expired accounts (included within SBR line 2190, New obligations and upward adjustments (Note 1)
Reconciling difference	$ 8,739	$ -	$ -	$ -	Less: SF 133 line 2413 - Expired unobligated balance, end of year (Note 2)
Reconciling difference	$ -	$ -	$ (38)	$ -	Less: distributed offsetting receipts (Note 3)
Reconciling difference (unidentified)	$ 7	$ 12	$ -	$ (2)	
Total	$ 263,771	$ 244,854	$ -	$ 173,662	
Budget of the U.S. Government	$ 263,771	$ 244,854	$ -	$ 173,662	
Difference	$ -	$ -	$ -	$ -	

The corresponding *Budget of the U.S. Government* with the actual amounts for FY 2023 will be available at a later date on the OMB website.

Note 1: Per the OMB Circular No. A-11, paragraph 130.11, upward adjustments of obligations to expired appropriation accounts are subtracted from expired unobligated balances as reported on line 2403, Unobligated Balance, Unapportioned: Other, a component of total budgetary resources as reported on SBR line 2500 (under Status of Budgetary Resources); and consequently, must also be excluded from line 1910 (also total budgetary resources).

Note 2: Per prior OMB Circular No. A-136 guidance "…expired unobligated balances are reported in the SBR and SF-133, but not in the Budget (of the U.S. Government)".

Note 3: The OMB *FY 2024 Appendix* does not report distributed offsetting receipts for FY 2022 at the Army GF level.

Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable

Note 23. Fiduciary Activities

For the years ended September 30 *(Amounts in thousands)*	2023	2022
Schedule of Fiduciary Activity		
1. Fiduciary Net Assets, Beginning of Year	$ (18,777)	$ (9,435)
2. Contributions	28,268	22,225
3. Distributions to and on Behalf of Beneficiaries	(22,204)	(31,567)
4. Increase/(decrease) in Fiduciary Net Assets	$ 6,064	$ (9,342)
5. Fiduciary Net Assets, End of Period	$ (12,713)	$ (18,777)
Schedule of Fiduciary Net Assets		
Fiduciary Assets		
1. Fund Balance with Treasury	$ (12,713)	$ (18,777)
2. Total Fiduciary Net Assets	$ (12,713)	$ (18,777)

Fiduciary activities are those activities that relate to the collection or receipt of cash or other assets in which nonfederal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary activities also include managing, protecting, accounting for, investing, and disposing of such cash or other assets. The Army GF has a fiduciary duty to the Savings Deposit Program in which the Army GF participates. PL 89-538 authorizes DoD, which includes Army GF, through the Savings Deposit Program, to collect a voluntary allotment from the current pay of members of the armed forces deployed outside the United States or its possessions in designated areas.

The Army GF collects the savings and allotments of Soldiers', and the collections and accrued earned interest are transferred to the U.S. Department of the Navy, the program's executive agent. These fiduciary assets are not assets of the Army GF and are not recognized on its Balance Sheets. Detail on contributions and distributions on behalf of beneficiaries are provided by the U.S. Treasury.

The fiduciary activity amount noted above is provided by the U.S. Treasury.

Fiduciary assets are not recognized on the Balance Sheet or on Note 3, *Fund Balance with Treasury*, in accordance with SFFAS 31, *Accounting for Fiduciary Activities*.

Note 24. Reconciliation of Net Cost to Net Outlays

For the year ended September 30	2023		
(Amounts in thousands)	Intragovernmental	Other than Intragovernmental	Total
1. Net Cost of Operations (SNC)	$ 22,530,344	$ 169,746,860	$ 192,277,204
Components of net cost that are not part of net outlays:			
2. Property, Plant, and Equipment - Depreciation	-	(16,801,641)	(16,801,641)
3. Property, plant, and equipment - Disposal and Revaluation	-	(6,877,432)	(6,877,432)
4. Inventory - Consumption	-	(820,634)	(820,634)
5. Increase/(decrease) in assets:			
A. Accounts receivable	(883,304)	(51,220)	(934,524)
B. Other assets	212,623	(1,824,352)	(1,611,729)
6. (Increase)/decrease in liabilities:			
A. Accounts payable	19,152	(672,495)	(653,343)
B. Environmental and disposal liabilities	-	(1,103,665)	(1,103,665)
C. Other liabilities	(690,672)	(376,455)	(1,067,127)
7. Other financing sources:			
A. Imputed Costs	(1,489,327)	97,784	(1,391,543)
8. Total components of net cost that are not part of net outlays	$ (2,831,528)	$ (28,430,110)	$ (31,261,638)
Components of net outlays that are not part of Net Cost:			
9. Investments	30	-	30
10. Acquisitions of Inventory	-	2,195,064	2,195,064
11. Acquisitions of PP&E	-	14,025,010	14,025,010
12. Other	-	(63,641)	(63,641)
13. Total components of net outlays that are not part of net cost	$ 30	$ 16,156,433	$ 16,156,463
14. Other temporary timing differences	$ -	$ 202,735	$ 202,735
15. Net outlays	$ 19,698,846	$ 157,675,918	$ 177,374,764
16. Agency outlays, net, Statement of Budgetary Resources			$ 177,374,764

For the year ended September 30 (Amounts in thousands)	2022 Intragovernmental	2022 Other than Intragovernmental	2022 Total
1. Net Cost of Operations (SNC)	$ 4,523,113	$ 174,119,259	$ 178,642,372
Components of net cost that are not part of net outlays:			
2. Property, Plant, and Equipment - Depreciation	-	(18,107,392)	(18,107,392)
3. Property, plant, and equipment - Disposal and Revaluation	-	2,436,085	2,436,085
4. Increase/(decrease) in assets:			
A. Accounts Receivable	(6,073,837)	3,465,751	(2,608,086)
B. Other assets	(181,455)	1,047,827	866,372
5. (Increase)/decrease in liabilities:			
A. Accounts payable	2,383,852	206,306	2,590,158
B. Environmental and disposal liabilities	-	(7,176,227)	(7,176,227)
C. Other liabilities	434,715	281,904	716,619
6. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	-	127,279	127,279
B. Other imputed financing (Judgment Fund)	(1,014,653)	-	(1,014,653)
7. Total components of net cost that are not part of net outlays	$ (4,451,378)	$ (17,718,467)	$ (22,169,845)
Components of net outlays that are not part of Net Cost:			
8. Acquisition of capital assets	-	16,199,095	16,199,095
9. Other	216,752	(35,909)	180,843
10. Total components of net outlays that are not part of net cost	$ 216,752	$ 16,163,186	$ 16,379,938
11. Other temporary timing differences	$ -	$ 769,670	$ 769,670
12. Net outlays	$ 288,487	$ 173,333,648	$ 173,622,135
13. Agency outlays, net, Statement of Budgetary Resources			$ 173,622,135

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Army GF's Net Cost of Operations, reported on an accrual basis, and Net Outlays, reported on a budgetary basis. While budgetary and financial 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 Army GF'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 use and receipt of cash by the Army GF. Outlays are payments to liquidate an obligation.

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, some of which involve government assets. Disclosure of P3s foster accountability and improve 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: Disclosure Requirements*, requires the disclosure of the nature of the Government's relationship with the private entities and helps 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.

Overview

The Army Military Housing Privatization Initiative (MHPI) agreements are private sector/market driven businesses established as Limited Liability Companies or Limited Partnerships (LLC/LP) single purpose entities. These entities allow the Army 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 government 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. The 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. The Private Partner serves as the majority managing member which ensures performance objectives are met over the expected life of the operating agreement. The Army serves as the minority member and enters into a long-term ground lease (generally 50 years), and conveys the associated real property assets (buildings, structures, facilities, and utilities) to the LLC or LP. The contractual terms and termination clauses vary by agreement. The

Army is not involved in the day-to-day operations and management of the LLC or LP but is provided approval rights for certain "Major Decisions" detailed in the operating agreements.

Funding and Contributions

The Army provides funding to the LLC or LP through:

- Equity Investments (§2875) - Provision of cash and transfer of real property ownership (land, housing units, and other structures) to a project and, in return, the DoD receives a portion of that project's profits and losses. In addition, the DoD also receives compensation if the investment is sold.
- Government Loan Guarantees (§2873) - Agreement to pay a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project only due to the reduction of military personnel below a specific number at the installation as detailed in the guarantee.

Within the Army MHPI program, the lease hold interest of local family housing portfolios at 45 Army installations were transferred to a unique Limited Liability Company (LLC) (36 projects), with joint ownership between Army and the private company. The private entity manages the LLC, as they are the majority owner within each of the LLCs. All of the MHPI agreements were initiated from 1999 to 2023, with the expected life of the agreements being 50 years plus a 25-year extension option. The contractual terms of these agreements as well as the termination clauses are varied between each of the LLC agreements.

The following table represents the aggregated contributions by the Army to the LLCs/LPs through September 30, 2023:

Table 1. Cumulative Contribution ($ in millions)

Army Initial Contributions from the MHPI Program to the LLCs & LPs* *($ in millions)* Cumulative as of September 30, 2023		
Direct cash contributions	$	1,907
Real property contributions to the LLCs & LPs (value of Real Property Assets (RPA) conveyed, per OMB scoring documents)	$	2,279
Bonds	$	-
Direct loans disbursed	$	-
Army On-Going Contributions to the DoD MHPI Program* *($ in millions)* Cumulative as of September 30, 2023		
Direct payments as required by Pub. L. 115-91 § 603 (1% BAH) and 15-232 § 606 (5% BAH)	$	372
Basic allowance for housing (BAH) under § 403 of Title 37 to members living in privatized housing for FY 2021, FY 2022, and FY 2023	$	6,065
Differential Lease Payments	$	-
Property, Cash, Bonds, and Loans	$	-
Private Partner Initial Contribution to the MHPI Program ($ in millions)		
Direct cash contributions	$	167
Real property contributions to the LLCs & LPs	$	-
Bonds	$	9,900
Direct loans disbursed	$	-
Private Partner On-Going Contribution to the MHPI Partnership *($ in millions)* Cumulative as of September 30, 2023		
Direct cash contributions	$	-
Bonds/Loans contributed (Outstanding balance per current amortization schedules)	$	8,573
Real property and land contributions	$	-

***Note 1:** *The disclosures above are currently presented in the DoD's consolidated financial statements and are not presented within the Military Department's financial statements.*

Table 2. Cumulative Acreage of Ground Leases in MHPI Agreements

Military Department	Ground Lease in Acres
ARMY	35,609

Assess other agreements for potential P3 disclosure.
SFFAS 49 establishes disclosure requirements for "risk-sharing arrangements or transactions lasting more than five years between public and private sector entities." The Army GF has assessed its agreements applying the SFFAS 49 requirements and has not identified any additional Public-Private Partnerships to date.

Note 26. Disclosure Entities and Related Parties

The Army's Nonappropriated Fund Instrumentalities (NAFIs) are fiscal entities supported in whole or in part by nonappropriated funds (NAFs). NAFs are generated from sales and user fees. The Army's NAFIs are governed by sections of Title 10. The Army's NAFIs consists of the Army exchanges and morale, welfare, and recreation (MWR) entities. The NAFIs are intended to enhance the quality of life of members of the uniformed services, retired members, and dependents of such members, and to support military readiness, recruitment, and retention.

The Army has an advisory group for its NAFIs. The group ensures the NAFI is responsive to authorized patrons and to the purposes for which the NAFI was created. Additionally, the NAFIs are subject to financial reporting requirements and financial audits conducted by independent public accounting firms. Therefore, while the Army GF does not control NAFIs nor are they considered related parties, Army NAFI financial activity is not included in the Army GF financial statements.

DoD FFRDC relationships are entities created to conduct research for the Department of Defense but are administered by colleges, universities, or other non-profit entities and conduct agency-specific research under contract or cooperative agreement. (Analytical Perspectives, *FY 2023 Budget of the U.S. Government*, p. 183). DoD *Federal Acquisition Regulation* (FAR) Part 35.017 provides federal policy for the establishment and use of FFRDCs, independent, not-for-profit organizations established and funded to meet special long-term engineering, research, development, or other analytical needs. The Rand Army Research Center (the Arroyo Center) is the Department of the Army's sole FFRDC for studies and analysis. It is a division of the RAND Corporation (a nonprofit, tax-exempt corporation) dedicated to supporting the U.S. Army (Army Regulation 5-21, June 29, 2018, Chapter 2, RAND Arroyo Center). As an FFRDC, the Arroyo Center enables the Army to maintain a strategic relationship with an independent, nonprofit source of high-quality, objective analysis that can sustain deep expertise in domains of direct relevance to perennial Army concerns to meet research or development needs that cannot be met as effectively by existing government or contractor resources. Funding for FFRDC work is provided through the DoD's contract with the parent organization that operates each FFRDC. Army provided approximately $35.5M to the RAND Arroyo Center in FY 2023.

The Army GF receives significant benefits from the work of the RAND Arroyo Center, which is critical to national security. All related Army research work undertaken by the Arroyo Center will be ordered through a single contract between Army and the RAND Corporation through an annual program, for which either party may recommend projects to be included [paragraph 2-2, (b)]. The regulation provides for a RAND Arroyo Center Policy Committee (ACPC) to establish overall objectives for the Center and broad supervisory and policy guidance and reviews and approves the annual Center research agenda. While the Army GF does not control the Arroyo Center, nor is it considered a related party, the Army GF must agree that it will conduct its business in a manner befitting its special relationship with the Army GF, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. The RAND Arroyo Center may be used only for work that is within its purpose, mission, and general scope of effort, as set forth within its sponsoring agreement with the Army and the provisions of Army Regulation 5-21.

Note 27. Security Assistance Accounts

Not Applicable

Note 28. Restatements

Not Applicable

Note 29. COVID-19 Activity

As of September 30, 2023 the Army GF has been allocated a total $1.3 billion in budgetary resources under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* (P.L. 116-136). Total funding received by the respective appropriations, together with obligations and outlays to date, are as follows:

For the Year Ended September 30 *(Amounts in thousands)*	2023 Budgetary Resources	2023 Obligations	2023 Outlays
Military Personnel, Army	89,438	89,438	89,438
Operation and Maintenance (O&M), Army	888,380	882,345	871,130
National Guard Personnel, Army	69,587	65,276	65,165
O&M, National Guard, Army	63,936	61,031	51,258
O&M, Reserve, Army	36,000	35,866	35,809
Research, Test, Development & Evaluation, Army	65,292	64,493	63,966
Other Procurement, Army	61,458	61,241	60,896
Totals	**$1,274,091**	**$1,259,690**	**$1,237,662**

Approximately $130 thousand of funds previously provided under the CARES Act for O&M, National Guard, Army were used as a source for the Foreign Currency Flux Internal Reprogramming in September 2023. OUSD guidance indicated that all expired funds for FY 2021 and FY 2022 were viable sources, with no stipulations on the original purpose of the funds other than being in an unobligated state.

As of September 30, 2023, overall COVID-19 activity has resulted in a net impact of approximately $1.3 billion to the Army GF cumulative results of operations.

For the Year Ended September 30 *(Amounts in thousands)*	2022 Budgetary Resources	2022 Obligations	2022 Outlays
Military Personnel, Army	89,438	89,438	89,438
Operation and Maintenance (O&M), Army	888,380	886,489	863,973
National Guard Personnel, Army	69,587	65,877	65,133
O&M, National Guard, Army	64,066	61,064	45,198
O&M, Reserve, Army	36,000	35,866	35,408
Research, Test, Development & Evaluation, Army	65,292	64,493	58,445
Other Procurement, Army	61,458	61,008	58,793
Totals	**$ 1,274,221**	**$ 1,264,235**	**$ 1,216,388**

Note 30. Subsequent Events

Not Applicable

REQUIRED SUPPLEMENTARY INFORMATION – GENERAL FUND

Department of Defense –Army General Fund

SCHEDULE OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2023 and 2022

($ in Thousands)	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction	Operations, Readiness & Support	2023 Combined	2022 Combined
Budgetary Resources:							
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	10,812,896	20,988,000	5,676,225	8,083,049	13,575,623	59,135,793	44,961,538
Appropriations (discretionary and mandatory)	17,055,885	34,806,508	69,323,523	3,375,115	75,733,460	200,294,491	182,669,131
Spending Authority from offsetting collections (discretionary and mandatory)	6,214,782	1,985,133	(233,566)	7,146,267	10,185,887	25,298,503	55,455,451
Total Budgetary Resources	34,083,563	57,779,641	74,766,182	18,604,431	99,494,970	284,728,787	283,086,120
Status of Budgetary Resources:							
New obligations and upward adjustments (total)	28,267,461	40,973,053	74,103,870	10,698,944	92,817,233	246,860,561	244,866,166
Unobligated balance, end of year:							
Apportioned, unexpired accounts	5,530,212	15,600,936	84,142	7,263,774	1,004,874	29,483,938	29,382,600
Exempt from apportionment, unexpired accounts	-	-	-	-	85,166	85,166	62,873
Unapportioned, unexpired accounts	40	-	2	-	28,354	28,396	35,632
Unexpired unobligated balance, end of year	5,530,252	15,600,936	84,144	7,263,774	1,118,394	29,597,500	29,481,105
Expired unobligated balance, end of year	285,850	1,205,652	578,168	641,713	5,559,343	8,270,726	8,738,849
Unobligated balance, end of year (total)	5,816,102	16,806,588	662,312	7,905,487	6,677,737	37,868,226	38,219,954
Total Budgetary Resources	34,083,563	57,779,641	74,766,182	18,604,431	99,494,970	284,728,787	283,086,120
Outlays, Net:							
Outlays, net (total) (discretionary and mandatory)	12,830,392	23,820,748	68,650,967	1,469,579	70,919,458	177,691,144	173,660,276
Distributed offsetting receipts (-)	-	-	-	-	(316,380)	(316,380)	(38,141)
Agency Outlays, net (discretionary and mandatory)	12,830,392	23,820,748	68,650,967	1,469,579	70,603,078	177,374,764	173,622,135

DEFERRED MAINTENANCE

Department of Defense –Army General Fund

Real Property Deferred Maintenance and Repair

For Fiscal Year Ended September 30, 2023 and 2022
(Excludes Military Family Housing)

(In Millions of Dollars)	FY 2023			FY 2022		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance & Repair)	3. Percentage (Required Work/Plant Replacement Value)	1. Plant Replacement	2. Required Work (Deferred Maintenance & Repair)	3. Percentage Value (Required Work/Plant Replacement Value)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$473,464	$71,047	15%	$347,519	$47,930	14%
Category 2: Buildings, Structures and Linear Structures (Heritage assets)	$62,346	$12,981	21%	$54,487	$11,014	20%
Inactive Real Property						
Category 3: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$25,649	$7,102	28%	$19,214	$5,412	28%

Department of Defense – Army General Fund

Military Family Housing — Real Property Deferred Maintenance and Repair

For Fiscal Year Ended September 30, 2023 and 2022
(Military Family Housing Only)

(In Millions of Dollars)	FY 2023			FY 2022		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance & Repair)	3. Percentage (Required Work/Plant Replacement Value)	1. Plant Replacement	2. Required Work (Deferred Maintenance & Repair)	3. Percentage Value (Required Work/Plant Replacement Value)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$9,533	$1,118	12%	$12,604	$1,245	10%
Category 2: Buildings, Structures and Linear Structures (Heritage assets)	$786	$146	19%	$916	$285	31%
Inactive Real Property						
Category 3: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$610	$144	24%	$1,564	$191	12%

Per DoD Financial Management Regulation 7000.14-R (September 2023), Volume 6B, Chapter 12, the Army's deferred maintenance estimates for FY 2023 and FY 2022 include all facilities in which DoD has ownership interest under the control of the Army and are not funded for Sustainment by another service, Non-Appropriated Funds, commissary surcharges or non-DoD sources. Assets that have been fully disposed, damaged beyond repair, are obsolete, or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings reported in the Installation Status Report (ISR) 4th Quarter FY 2023 and FY 2022 obtained by application of business rules described below. For FY 2023 and FY 2022, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x plant replacement value (PRV).

Q-ratings are determined by the ISR for the majority of facilities and by business rule for the remaining facilities. During ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: 95 if the facility is no more than 5 years old; 85 if the facility is permanent or semi-permanent construction and between 5 and 15 years old; 70 if the facility is permanent or semi-permanent construction and more than 15 years old; 59 if the facility is temporary construction and more than 5 years old; 95 if the asset is a lease or privatized. For assets with a Non-Functional operational status, Q-ratings are assigned 100 if the reason code is RENO, 59 if the reason code is ENVR, and 59 if the reason code is DAMG. Acceptable operating condition represents facilities with no deferred maintenance.

Facilities of all ownership interests are included in the data set; relocatable buildings are excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of “Active” or “Semi-Active” are included, less those that meet the following criteria:

    1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
    2. The asset is designated as a Heritage Asset.
    3. A Disposal Completion Date is associated with the Asset
    4. A Disposal Reason Code is associated with the asset.

- Category 2: Buildings, Structures, and Utilities that are Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of “Active” or “Semi-Active” and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:

    1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
    2. A Disposal Completion Date is associated with the Asset
    3. A Disposal Reason Code is associated with the asset.

- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets. Facilities with an Operational Status of “Caretaker”, “Excess”, “Non-Functional”, “Outgrant”, “Surplus” or “Closed” plus “Active” and “Semi-active” with a Disposal Reason Code plus “Active” and “Semi-active” with a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

Equipment Deferred Maintenance and Repair (DM&R)

for Fiscal Year Ended September 30, 2023

(Amounts in thousands)

Major Categories	FY 2022 DM&R	FY 2023 OP-30/PB-45/ PB-61 Amounts	Adjustments	FY 2023 Totals
Aircraft	125,790	220,195	-	220,195
Automotive Equipment	58,364	8,805	-	8,805
Combat Vehicles	249,730	21,113	-	21,113
Construction Equipment	-	-	-	-
Electronics and Communications Systems	156,068	92,417	-	92,417
General Purpose Equipment	279,446	57,516	-	57,516
Missiles	167,704	216,251	-	216,251
Ordnance Weapons and Munitions	-	-	-	-
Other	186,362	618,167	-	618,167
Ships	10,678	71,348	-	71,348
Grand Total	**$1,234,142**	**$1,305,812**		**$1,305,812**

The OP-30 from the FY 2023 Budget of the U.S. Government was used to compile the deferred depot level maintenance. Depot Maintenance Operations and Planning System is the automated system for capturing depot-level deferred maintenance data. The data is for sub-activity group 123, all active components. There has been no significant change in reporting methodology in deferred maintenance and repairs from prior years.

Funding provided to support the Program Objective Memorandum (POM) 12-16 for depot maintenance adequately supported the Army's most critical modernization and equipping strategies. The program ensured that Soldiers have the equipment needed to execute their assigned mission as they progress through the Army Force Generation (ARFORGEN) cycle. The bottom-line is that depot maintenance requirements continue to grow while the Army continues to get fewer resources with reduced budgets.

The funding also provided the resources necessary for Land Forces Depot Maintenance to meet the requirements of an Army transitioning from operations in theater to home station training – an expeditionary Army engaged in full spectrum operation (FSO) training and poised for future contingency response. In recent years, the Army has leveraged Overseas Contingency Operation (OCO) dollars to offset depot maintenance through equipment reset for redeploying units. Redeployed units will demand greater equipment to support FSO training and future contingencies. To meet the exigencies of war, Army has generated a digitally dependent force. The digitally integrated Army of today is far different from the analog Army that went to war at the beginning of the decade. These technologies must now be sustained.

LAND AND LAND RIGHTS

In accordance with the Statement of Federal Financial Accounting Standards 59, *Accounting and Reporting of Government Land*, the Army GF estimated acreage of GPP&E land and stewardship land is presented in three predominant use subcategories: Conservation and Preservation Land, Operational Land, and Commercial Use Land.

Department of Defense — Army General Fund

Estimated Acreage by Predominant Use – GPP&E Land and Permanent Land Rights

For the Year Ended September 30, 2023

	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Held for Use				
September 30, 2021	-	*	*	11,548,032
September 30, 2022	-	159	11,035,989	11,036,148
September 30, 2023	-	159	11,618,081	11,618,240
Held for Disposal or Exchange				
September 30, 2022	-	-	59	59
September 30, 2023	-	-	56	56

*The Army has prioritized data cleansing for land in support of SFFAS 59, *Accounting and Reporting of Government Land*, to report the predominant use. Due to the timing of the requirement, the Army implemented the new breakout in time for yearend FY 2022. The Army did not have this breakout available for yearend FY 2021 but will report it in future fiscal years.

The acquisition and use of land is critical to the Army's mission to deploy, fight and win our nation's wars by providing ready, prompt and sustained land dominance by Army forces across the full spectrum of conflict as part of the joint force. This mission includes land, air, and marine operations to support the National Military Strategy. The Army's land provides an area for facilities, training ranges, housing, and transportation, including airfields. These ranges, transportation modes, and facilities are used to recruit, train, equip, and deploy the military, civilians, and contractors from other tenant organizations.

Army Land Policies

The Secretary of the Army (SecArmy) has real estate procurement and management authority under United States statutes. 10 USC § 2663(h), "Land Acquisition Authorities", establishes monetary authority levels for purchasing land. Funding for land purchases is authorized by Congress under the Military Construction (MILCON) appropriations. The Army operates under the Department of Defense Directive (DoDD) 4165.06, *Real Property and Army Regulation* (AR) 405-10, *Acquisition of Real Property and Interests Therein*, which establishes policy for land acquisition.

The disposal of land is governed by Department of Defense Instruction (DoDI) 4165.72, *Real Property Disposal*, and AR 405-90, *Disposal of Real Property*. The Army GF may nominate excess land for disposal and submit a Report of Availability through the Army for approval and Congressional notification. Army-controlled real property in the United States that is excess to DoD requirements, and above dollar delegations outlined in Part 102–75, Subchapter C, Title 41, *Code of Federal Regulations* (41 CFR 102–75) *Federal Management Regulation* (FMR), will be reported to the General Services Administration (GSA) for disposal. The disposal process includes a check of requirements for the land by other DoD agencies and other Federal Agencies. If there is no government need, the GSA may sell it for commercial use or to a local government.

HERITAGE ASSETS AND STEWARDSHIP LAND

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2023

The conditions of archeological sites across the Army remain varied from poor to excellent based on a number of factors including the environmental setting and natural disasters, the type of the site, and impacts from Army activities. If an Army activity has the potential to adversely impact an archeological site eligible for the National Register, the Garrison's Installation Cultural Resources Management Plan (ICRMP) contains provisions for how the installation might proceed to avoid, minimize, or mitigate those impacts. The ICRMPs provide installations the information and tools necessary to manage their cultural resources, including archeological sites, in compliance with federal requirements. These plans provide for site protection, site condition monitoring, and mitigation procedures for adverse impacts to sites. Overall, the conditions of sites on Army installations are fair, based on the Army's cultural resource management procedures.

SECTION 2B: Army Working Capital Fund Financial Section

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.), Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, and the U.S. generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

A READY **ARMY**
ACCOMPLISHING ARMY **CORE MISSIONS**
FOCUSING ON **FUNDAMENTALS**

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

November 8, 2023

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Department of the Army Working Capital Fund Financial Statements and Related Notes for FY 2023 and FY 2022
(Project No. D2023-D000FI-0029.000, Report No. DODIG-2024-022)

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to audit the U.S. Department of the Army (Army) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2023, and 2022. The contract required KPMG to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the Army's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army Working Capital Fund's Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army Working Capital Fund FY 2023 and FY 2022 Financial Statements and related notes.

KPMG's report, "Report on the Audit of the Consolidated Financial Statements," discusses 14 material weaknesses related to the Army's internal controls over financial reporting.[*] Specifically, KPMG's report stated that the Army did not:

- prepare complete and accurate populations for beginning balances;
- accurately record, reconcile, and support inventory balances, gains and losses, and Costs of Goods Sold;
- provide a complete and accurate population, track additions and disposals, and properly value General Equipment, including software;
- provide a complete and accurate population, track additions and disposals, and properly value Real Property;
- develop estimates and verify the accuracy of asset-driven environmental and disposal liabilities;
- verify that revenue, accounts receivable, collections, spending authority, supply turn-in, credit memorandum, and unfilled customer order balances recorded in the consolidated financial statements were complete, accurate, valid, and supported by appropriate documentation;
- provide and maintain sufficient supporting documentation to demonstrate that balances and transactions were properly reported on the financial statements and control activities were performed;
- ensure the effective design, implementation, and operation of financial information systems controls;
- identify, classify, and record accruals for goods and services;
- present information and make required disclosures in accordance with Generally Accepted Accounting Principles, prevent or detect and correct misstatements, and demonstrate that manual journal entries to the general ledger were complete, accurate, and valid;

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

- ensure that intragovernmental transactions were reconciled and recorded and intra-entity transactions and eliminations were adjusted, supported, designed, and implemented;

- validate that financial information was completely and accurately transferred and reconciled between feeder systems and financial systems, and reported on the financial statements;

- design and implement a risk management internal control program to include all risks and tolerances for enterprise responsibility controls; or

- provide an entity-level control system to produce reliable financial reporting.

KPMG's report, "Report on the Audit of the Consolidated Financial Statements," also discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, KPMG's report describes instances in which the Army's internal control assessment and financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed them with KPMG's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Army Working Capital Fund FY 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 8, 2023 report, and the conclusions expressed within the report.

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

FOR THE INSPECTOR GENERAL:

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

Attachment:
As stated

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary of the Army and
Inspector General of the Department of Defense:

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of the United States (U.S.) Department of the Army (Army) Working Capital Fund (WCF), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

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

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements. Also, the Army WCF valued a significant portion of inventory using deemed cost as of October 1, 2018. However, deemed cost is not an acceptable valuation method for the opening balance of inventory until the Army WCF makes an unreserved assertion that its inventory is presented fairly in accordance with U.S. generally accepted accounting principles.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Annual Financial Report* to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Army WCF consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards,* and OMB Bulletin No. 24-01, and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated 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 GAAS because management did not provide sufficient appropriate evidential matter. We do not express an opinion or provide any assurance on the information.

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the Army WCF's consolidated financial statements as of and for the year ended September 30, 2023, we considered the Army WCF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army WCF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit II to be an area of significant deficiencies.

Report on Compliance and Other Matters

In connection with our engagement to audit the Army WCF's consolidated financial statements as of and for the year ended September 30, 2023, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01, and which is described in item A of the accompanying Exhibit III.

We also performed tests of the Army WCF's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996*. Providing an opinion on compliance with the *Federal Financial Management Improvement Act of 1996* was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in item B of the accompanying Exhibit III, in which the Army WCF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

United States Department of the Army Working Capital Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Army WCF's response to the findings identified in our engagement and described in the accompanying Exhibit IV. The Army WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Army WCF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 8, 2023

A. Beginning Year Balances

Management has undergone significant efforts to become auditable; however, management and its service providers did not fully develop and implement processes and controls to prepare complete and accurate populations for the beginning balances in the consolidated financial statements.

The above condition primarily resulted because management and its service providers did not design appropriate control activities, maintain sufficient and appropriate detailed transactions and supporting documentation, consistently and timely obtain relevant and reliable data, process the data into populations that supports the beginning balances, monitor the design and operating effectiveness of the control system, and timely implement corrective actions to remediate the deficiencies.

The criteria are Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* and Office of Management and Budget (OMB) Circular Number (No.) A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*.

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Develop and implement processes and controls to prepare complete and accurate populations at the transaction-level for beginning balance sheet and statement of budgetary resource balances.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the beginning balance sheet and statement of budgetary resource balances.
- Monitor the design and operating effectiveness of the beginning balance controls.
- Assign resources to timely implement corrective actions.

B. Inventory

Management did not consistently design, document, implement, and operate controls over inventory as follows:

Inventory Valuation

- Management valued a significant portion of inventory using deemed cost as of October 1, 2018; however, deemed cost is not an acceptable valuation method for the opening balance of inventory until management makes an unreserved assertion that its inventory was presented fairly in accordance with U.S. generally accepted accounting principles.
- Management did not design, implement, and operate controls to record inventory at the proper valuation and demonstrate inventory valuation was supported by documentation readily available for inspection. In addition, management did not fully design, document, and implement controls to prepare a population of inventory price changes.
- Management did not sufficiently design, document, implement, and operate controls to monitor moving average cost transactions and calculations to identify and resolve transactions that incorrectly impacted the moving average cost calculation, and demonstrate that costs were appropriate and supported. In addition, management did not design and implement controls over the data used in monitoring the moving average costs or document its rationale for the thresholds used in monitoring moving average cost calculations.
- Management did not fully design, document, and implement policies and controls to identify, appropriately account for, and report all excess, obsolete, and unserviceable inventory. Additionally, management did not fully establish policies and controls over its methodologies, assumptions, data, and reports used to identify excess, obsolete, and unserviceable inventory or consistently maintain documentation to support its determination and controls. Management also did not consistently recognize excess, obsolete, and unserviceable inventory at net realizable value.

Inventory Existence and Completeness

- Management did not effectively design, implement, and perform reconciliations between the financial system and warehouse management systems, support thresholds used, resolve differences between such systems, document the reconciliations including how differences were resolved, and maintain reconciliation documentation.
- Management did not design, document, and implement consistent policies and controls over inventory receipt and issuance transactions.
- Management did not effectively design, document, and implement inventory count policies and controls across all warehouse locations. Controls did not sufficiently address the policies and procedures to be followed by each warehouse, such as defining items and attributes to be counted and the count frequency, documenting rationale for items not counted, determining how to resolve count differences and differences between warehouse management and financial systems, monitoring of count execution and results, and requiring documentation for recording adjustments and demonstrating execution of all controls.
- Management did not effectively operate inventory count controls. Counts were not always conducted in accordance with the documented policies, counts were not conducted of all

warehouse locations, and required documentation was not maintained to evidence the performance of counts and count adjustments.

- Management did not design and implement controls over the appropriate classification of inventory and did not effectively operate controls to properly store and label inventory with identifying attributes.
- Management did not effectively design, document, and operate controls to monitor open stock transport orders (i.e., inter-plant transfers), and adjust inventory records for invalid stock transport orders. Additionally, management did not design and implement controls or document its rationale for the criteria, thresholds, and reports used to monitor open stock transport orders.
- Management did not consistently design, document, and implement controls to maintain accurate inventory data in the warehouse management and financial systems.
- Management did not obtain information over the design, implementation, and operating effectiveness of controls for inventory held at Defense Logistics Agency warehouses; specifically controls related to data transmission, inventory receipt recordation and acceptance, completeness of assets in storage, existence, rights, condition code of items/valuation, adjustments to balances, timeliness of fulfilling orders, shipping, and safeguarding of assets. Additionally, management did not design compensating controls related to inventory held at Defense Logistics Agency warehouses.
- Management did not have a fully documented understanding of contractors' information, locations, processes, and controls over inventory held at all contractor sites. Management also did not fully design and implement monitoring and reconciliation controls over inventory held at contractors as management did not reconcile its records for certain contractors, and management's records did not always agree to the contractors' records. In addition, management did not design, document, and implement controls to consistently identify, and report government furnished inventory and contractor acquired inventory.

Inventory Held for Repair, Work In Process, and Other Costs

- Management did not fully design, document, and implement document policies and controls for inventory held for repair, including the repair cost methodology, calculations, assumptions, and underlying data used. Additionally, management did not implement controls to demonstrate held for repair documentation was properly maintained and readily available for inspection.
- Management did not design, document, and implement controls to monitor work in process projects to identify and adjust for completed projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value. Additionally, management did not design and implement controls to expense repair costs in excess of serviceable value, demonstrate work in process reports are complete and accurate, and properly account for and support project costs.
- Management did not design, document, and implement controls to prepare a population of contractor managed work in process transactions.
- Management did not effectively design, implement, and operate controls to monitor gains, losses, costs of goods sold, and other costs resulting from inventory transactions to determine the transactions were supported, accurate, and recognized in the proper accounting period.

The above conditions primarily resulted because of the following:

- Management did not perform a complete risk assessment to identify risks and information, and fully implement policies and controls to address such risks.
- Management did not consistently assign sufficient resources to perform responsibilities, delegate authority to individuals, and communicate policies and assigned responsibilities. Additionally, management did not train and develop individuals to perform their responsibilities and enforce accountability of individuals performing responsibilities.
- Management did not consistently obtain, process, and communicate quality information.
- Management did not perform appropriate monitoring of controls to determine transactions were properly recorded and supporting documentation was readily available for inspection.
- Management did not timely document and implement corrective actions.

The criteria are as follows:

- *GAO Standards for Internal Control in the Federal Government*
- Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 1: *Accounting for Selected Assets and Liabilities,* SFFAS 3*: Accounting for Inventory and Related Property,* SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, and* SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*
- Treasury Financial Manual
- Department of Defense (DoD) policies and guidance
- Army policies and guidance
- Federal Acquisition Regulation (FAR)
- Federal Financial Management Improvement Act of 1996
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform the following:

- Complete risk assessments to identify financial statement risks and design, document, and implement policies and controls to verify inventory, gains, losses, costs of goods sold, and other costs are properly and timely recorded in the financial system. In addition, assign sufficient resources to perform controls, delegate authority to individuals, communicate responsibilities, develop individuals, and enforce accountability. Additionally, obtain, process, and communicate quality information. Furthermore, timely document and implement corrective actions and monitor controls to determine transactions are properly recorded and supporting documentation is readily available for inspection.

- Record deemed cost adjustments when management is ready to make an unreserved assertion and design and implement controls to consistently apply deemed cost adjustments.
- Design, implement, and operate controls to record inventory at the proper valuation, demonstrate inventory valuation is supported by documentation and populations readily available for inspection.
- Design, implement, and operate controls to monitor moving average cost transactions and calculations to identify and resolve transactions that incorrectly impact the moving average cost calculation, and demonstrate that the costs, data, and thresholds used are appropriate and supported.
- Design, document, and implement policies and controls over methodologies, assumptions, data, reports, and supporting documentation used to identify and recognize excess, obsolete, or unserviceable inventory at net realizable value.
- Complete the design and implementation of reconciliations between the financial system and warehouse management systems to include supporting thresholds used, resolving differences between such systems, and maintaining reconciliation documentation.
- Design, document, and implement consistent policies and controls over inventory receipt and issuance transactions.
- Design, document, and implement consistent inventory count policies and controls across all warehouse locations to defining items and attributes to be counted and the count frequency, documenting rationale for items not counted, determining how to resolve count differences and differences between warehouse management and financial systems, monitoring of count execution and results, and requiring documentation for recording adjustments and demonstrating execution of all controls.
- Effectively operate inventory count controls across all warehouse locations. In addition, communicate inventory count policies, provide training, and hold personnel accountable to conduct inventory counts of all locations in accordance with policies, and retain all count and adjustment documentation.
- Design, implement, and operate controls over the appropriate classification of items as inventory and properly storing and labelling inventory.
- Design, implement, and operate monitoring controls over open stock transport orders, adjusting the inventory records for invalid stock transport orders, and supporting the criteria, thresholds, and reports used to monitor open stock transport orders.
- Design and implement controls to maintain accurate inventory data in the warehouse management and financial systems, and consistently perform and document monitoring controls over the accuracy of inventory data.
- Monitor the service provider controls and design and implement compensating controls when service provider controls over inventory held at Defense Logistics Agency warehouses are not effectively designed, implemented, or operated.
- Document contractors' information, locations, processes, and controls over inventory held at contractor sites. In addition, design and implement monitoring and reconciliation controls over inventory held at contractors, government furnished inventory, and contractor acquired inventory.

- Design, document, and implement policies and controls for inventory held for repair, including repair cost methodologies, calculations, assumptions, and underlying data used. In addition, implement controls to demonstrate held for repair documentation is properly maintained and readily available for inspection.
- Design, document, and implement controls to identify and adjust for completed work in process projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value, expense repair costs in excess of serviceable value, demonstrate that work in process reports are complete and accurate, and appropriately account for and support project costs.
- Design, document, and implement controls to prepare a population of all work in process transactions.
- Design and implement controls to monitor gains, losses, costs of goods sold, and other costs resulting from inventory transactions to determine the transactions are supported, accurate, and recognized in the correct accounting period.

C. Property, Plant, and Equipment – General Equipment

Management did not consistently design, document, implement, and operate controls over general equipment including software as follows:

- Management is in the process of developing a deemed cost methodology for valuation of opening general equipment and software balances; however, management did not complete all steps to make an unreserved assertion and did not provide sufficient appropriate supporting documentation for historical cost valuation.
- Management did not implement controls to verify general equipment data elements (e.g., in-service date, operational status, and accumulated depreciation) were completely and accurately recorded in the property system.
- Management did not consistently implement controls over physical observation and record retention to demonstrate that general equipment balances existed, were complete, and were supported.
- Management did not consistently design and implement controls over the recording of acquisitions, disposals, and construction-in-progress costs for general equipment. In addition, management did not effectively implement monitoring controls over general equipment acquisitions and disposals.
- Management did not properly design and implement controls over the reconciliations between the property system and the financial system, and timely research and transfer costs accumulated in the construction-in-progress accounts for general equipment.

The above conditions primarily resulted because of the following:

- Management did not identify all general equipment and internal use software risks, and fully establish and document policies and controls to address such risks. Additionally, management did not periodically review policies, procedures, and controls for continued relevance and effectiveness in addressing objectives and risks.
- Management did not assign the appropriate individuals to general equipment and internal use software control responsibilities, effectively communicate responsibilities and quality data to individuals, train and develop individuals, and enforce accountability of individuals performing internal control responsibilities.
- Management did not monitor the design and operating effectiveness of the internal control system as part of the normal course of operations.
- Management did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment,* SFFAS 10: *Accounting for Internal Use* Software, and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD policies and guidance
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Complete all necessary steps to make an unreserved assertion for general equipment and software and communicate and enforce policies and procedures to retain supporting documentation for general equipment and software amounts.
- Design and implement controls over general equipment data elements, physical observation, and record retention to determine that general equipment financial information is supported and completely and accurately recorded in the property system and the financial system.
- Design and implement controls, including monitoring review controls, to properly record acquisitions, disposals, and construction in progress costs for general equipment.
- Implement and monitor controls to reconcile the property system and financial system, and timely transfer costs accumulated in the construction-in-progress accounts.
- Identify all risks, establish controls to respond to such risks, enhance general equipment and software policies, and timely communicate the general equipment policies and quality data throughout the organization.
- Assign responsibilities, assign resources to implement corrective actions, train and develop individuals on executing internal controls, and enforce accountability of individuals performing responsibilities, and monitor compliance with policies for general equipment.

D. Property, Plant, and Equipment – Real Property

Management did not consistently design, document, implement, and operate controls over real property as follows:

- Management is in the process of developing a deemed cost methodology for valuation of opening real property balances; however, management did not complete all steps to make an unreserved assertion and did not provide sufficient appropriate supporting documentation for historical cost valuation.
- Management did not implement controls to verify real property data elements (e.g., ownership, acquisition cost, operational status, type code, and useful life) were supported, and were completely and accurately recorded in the property system.
- Management did not consistently implement controls over physical observation and record retention to demonstrate the real property balances exist, were complete, and were supported.
- Management did not consistently design and operate controls over the recording of acquisitions, disposals, and construction-in-progress costs for real property.
- Management did not properly implement controls over the reconciliations between the property system and the financial system, and timely research and transfer costs accumulated in the construction-in-progress accounts for real property.
- Management did not design and implement controls to address the completeness and accuracy of land acreage recorded in the property system and note disclosure in the consolidated financial statements.

The above conditions primarily resulted because of the following:

- Management did not identify all real property and land risks, and fully establish and document policies and controls to address such risks. Additionally, management did not periodically review policies, procedures and controls for continued relevance and effectiveness in addressing objectives and risks.
- Management did not assign the appropriate individuals to real property and land control responsibilities, effectively communicate responsibilities and quality data to individuals, and train and develop individuals performing internal control responsibilities.
- Management did not monitor the design and operating effectiveness of the internal control system as part of the normal course of operations.
- Management did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment*
- DoD policies and guidance
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Complete all necessary steps to make an unreserved assertion for real property and communicate and enforce policies and procedures to retain supporting documentation for real property amounts.
- Design and implement controls over real property data elements, physical observation, and record retention to determine that real property is supported and completely and accurately recorded in the property system and the financial system.
- Design and operate controls, including monitoring review controls, to properly record acquisitions, disposals, and construction-in-progress costs for real property.
- Implement and monitor controls to reconcile the property system and financial system and timely transfer costs accumulated in the construction-in-progress accounts.
- Design and implement controls to determine that land acreage is supported and completely and accurately recorded in the property system and the note disclosure in the consolidated financial statements.
- Identify all risks, establish controls to respond to such risks, enhance real property policies, and timely communicate the real property policies and quality data throughout the organization.
- Assign resources to responsibilities, communicate responsibilities and quality data, train and develop individuals on executing internal controls, monitor controls, and timely implement corrective actions for real property.

E. Environmental and Disposal Liabilities – Asset Driven

Management improved controls over environmental and disposal liabilities; however, management did not consistently design, implement, and document policies, processes, and controls to:

- Verify the completeness and accuracy of liability populations used to determine the environmental and disposal liabilities.
- Perform reviews over the development and recording of environmental and disposal liabilities to support complete and accurate estimates, including documenting that all assumptions, inputs, and calculations are reasonable and in accordance with industry and regulatory standards. Additionally, document the review process, including who performed the review, when the review was completed, the rationale for the precision used when reviewing each asset type, how the supporting documentation was reviewed, how it was determined sufficient, and how conclusions were reached.
- Demonstrate that management’s review of the quarterly environmental and disposal liability estimates addresses management’s assertions that the estimates are complete and accurate.
- Determine the completeness and accuracy of processes and information related to the environmental and disposal liability guidance, including the roll-forward processes to identify and account for changes occurring through the period-end date.
- Perform complete retrospective reviews to address environmental and disposal liability estimation uncertainty, including assessing the reliability and reasonableness of the estimation process and resulting estimates.
- Provide sufficient documentation to support the exclusion of certain assets from the reported environmental and disposal liabilities.

The above conditions primarily resulted because of the following:

- Management did not effectively document controls and assign environmental and disposal liability responsibilities, delegate authority to individuals, and communicate such responsibilities.
- Management did not identify risks, quality information, and changes for environmental and disposal liabilities, and document procedures and design policies and controls to address such risks.
- Management did not review environmental and disposal liability policies, procedures, data inputs, and controls for continued relevance and effectiveness in addressing financial statement risks.
- Management did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government* and the *Cost Estimating and Assessment Guide*
- SFFAS 5*: Accounting for Liabilities of The Federal Government,* SFFAS 6*: Accounting for Property, Plant, and Equipment,* SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board,* Federal Financial Accounting Technical Release 11: *Implementation Guidance on Cleanup*

Costs Associated with Equipment, and Federal Financial Accounting Technical Release 18: *Implementation Guidance for Establishing Opening Balances*

- DoD policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform the following:

- Complete comprehensive risk assessments to identify and analyze environmental and disposal liability risks, quality information, reliable data, and changes, and fully establish policies, processes, and controls to address such risks. Additionally, assign responsibilities and authority, communicate responsibilities of control execution, and monitor and enforce performance of controls.
- Design, document, and implement policies, processes, and controls to review the completeness and accuracy of the populations used to determine the environmental and disposal liabilities.
- Design, document, and implement policies, processes, and controls for the environmental and disposal liability population review processes, including who is responsible for completing the review procedures, timing of the reviews, the review requirements, the rationale for precision used, sufficiency of the documentation, and conclusions reached.
- Design, document, and implement policies, processes, and controls to determine that the environmental and disposal liability guidance, cost estimate methodology, assumptions, inputs, calculations, and laws and regulations are complete, accurate, relevant. And address the timing, preparation, and review requirements for roll forward procedures.
- Enhance documentation, design, and implementation of procedures and controls to perform consistent reviews of estimate assumptions, inputs, and calculations for environmental and disposal liabilities, including the risk assessment over the level of precision used in the review, and require the reviewer to conclude if judgments and manually entered estimates are supported and accurate, and in accordance with regulatory and industry standards, and document details over the estimate reviewed and conclusions reached.
- Design, document, and implement procedures and controls over the review of the quarterly environmental and disposal liability, specifically documenting the defined precision of management's review, supporting conclusions determined, and validating the completeness and accuracy of populations received and used to calculate the reported liability estimate.
- Design, document, and implement controls over the retrospective review, estimation uncertainty, reliability of the estimation process, and reasonableness of estimates developed.
- Design, document, and implement risk assessment procedures and controls to support the exclusion of certain assets from the reported environmental and disposal liability.
- Timely document and implement corrective actions.

F. Revenue

Management and its service providers did not consistently design, document, implement, and operate controls over revenue, accounts receivable, collections, spending authority, supply turn-in, credit memo, and unfilled customer order balances as follows:

- Management did not design, document, and implement controls to consistently recognize revenue transactions when inventory is delivered to and accepted by the customer.
- Management did not have appropriate policies and controls to verify that labor rates, labor hours, material prices, material quantities, project costs, credit amounts, and other information used to determine revenue were complete and accurate.
- Management did not fully design policies and controls for the cost estimate methods, assumptions, and data. In addition, management did not design, document, and implement controls to determine that cost estimates were properly developed and reported.
- Management and its service providers did not effectively operate controls to verify that supporting documentation, such as support for funded amount, quantity shipped, material price, labor rates, and other information, is consistently maintained and readily available for inspections for revenue, accounts receivable, collections, spending authority amounts, and unfilled customer order transactions.
- Management did not develop, document, and implement processes and controls to properly record and present, in the consolidated financial statements, a revenue allowance for potential returns, allowances, price redeterminations, or other reasons.
- Management and its service providers did not consistently design, document, implement, and operate controls to determine that revenue, accounts receivable, collections, spending authority, unfilled customer order, supply turn-in, and credit memo transactions were recorded in the proper account, in the proper accounting period, or at the correct amount. In addition, management did not implement a process and controls to consistently adjust customer orders for price changes, communicate the related order changes to customers, and retain documentation for such communication.
- Management did not fully design and operate controls to timely identify and adjust invalid unfilled customer order and account receivable balances. Furthermore, management did not adhere to its policies and procedures for performing the controls.
- Management did not develop and implement processes and controls to prepare a complete and accurate population for industrial operations spending authority and unfilled customer orders. In addition, management did not properly design, document, and implement the material price, credit value, revenue, accounts receivable, and unfilled customer order reconciliations between financial systems to determine that transactions are complete and accurate.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment over revenue, project costs, sales returns, cost estimates, supply turn-in, accounts receivable, collections, spending authority, and unfilled customer order processes to identify financial statement risks and fully establish organizational structure, policies, information requirements, and controls to address such risks.

- Management and its service providers did not enforce accountability of individuals performing controls or monitor controls over revenue, cost estimates, potential losses, accounts receivable, collections, spending authority, and unfilled customer orders to verify that the balances are complete, accurate, valid, and supported by appropriate supporting documentation that is readily available for inspection.
- Management and its service providers did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*, and GAO *Cost Estimating and Assessment Guidance*
- FASAB *SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-136: *Financial Reporting Requirements*, and OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget*
- Treasury Financial Manual
- Federal Financial Management Improvement Act of 1996
- DoD policies and guidance
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Design, document, and implement processes and controls to recognize revenue transactions when inventory is delivered to and accepted by the customer.
- Develop, document, and implement policies and controls to address financial reporting risks and verify that labor rates, labor hours, material prices, material quantities, project costs, credit amounts, and other information used to determine revenue are consistently approved, and completely and accurately recorded in the financial system.
- Design, document, and implement controls for the cost estimate methods, assumptions, and data to determine that cost estimates are properly developed and reported.
- Monitor and enforce accountability of individuals performing controls to verify that supporting documentation is consistently maintained and readily available for inspections for revenue, accounts receivable, collections, spending authority amounts, and unfilled customer order transactions.
- Develop, document, and implement controls to properly record and present, in the consolidated financial statements, a provision for returns, allowances, price redeterminations, or other reasons.

- Develop, document, implement, and operate cut-off procedures and controls to verify that revenue, accounts receivable, collections, unfilled customer order, supply turn-in, and credit memo transactions are recorded in the proper account, correct accounting period, at the correct amount, and adjusted for price changes that cross fiscal years.
- Design and operate controls to timely record adjustments to unfilled customer orders and accounts receivable for inclusion in the consolidated financial statements, and perform enforcement and monitoring to verify compliance with the policies and controls.
- Develop and document policies that detail the steps to create a complete and accurate population of spending authority and unfilled customer orders and reconcile the populations to the underlying supporting documentation and the general ledger.
- Design, document, and implement the material price, credit value, revenue, accounts receivable, and unfilled customer order reconciliations between financial systems to verify that transactions are complete and accurate.
- Complete risk assessments and implementation of organizational structure, policies, information requirements, and controls to address risks for the revenue, project costs, sales returns, cost estimates, supply turn-in, accounts receivable, collections, spending authority, and unfilled customer order processes.
- Assign resources to timely implement corrective actions.

G. Evidential Matter

Management and its service providers did not always have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for accounts receivable, inventory, general equipment, real property, accounts payable, environmental and disposal liabilities, other liabilities, revenue, cost, budgetary, and other transactions were properly reported in the consolidated financial statements. Management and its service providers did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the control or transactions recorded in the general ledger used to prepare the consolidated financial statements, and (c) was not effectively reviewed and approved by management, or the review and approval was not documented.

Management and its service providers relied on information produced by the financial and feeder systems to support certain transactions and balances in the consolidated financial statements; however, management and its service providers did not have effective information technology controls over such systems (discussed further in H - Information Technology Controls), and therefore did not provide reliable evidential matter.

The above conditions primarily resulted because of the following:

- Management and its service providers did not fully perform a risk assessment, and did not demonstrate a full understanding of its processes, policies, and procedures over record retention.
- Management and its service providers did not assign sufficient resources and enforce accountability to timely locate and provide supporting documentation.
- Management and its service providers did not design and implement business processes and controls, and monitor performance of such controls, to maintain evidential matter and evidence of supervisory review. In addition, management and its service providers did not fully train and develop personnel to properly perform the controls and retain and provide reliable evidential matter.
- Management and its service providers did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-136: *Financial Reporting Requirements,* OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control,* and OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget*
- DoD policies and guidance
- Army policies and guidance

As a result of deficiencies noted above, the potential exists that transactions would not be supported by appropriate documentation and controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Document a thorough risk assessment, and design, document, and implement procedures and controls to effectively review, document review of, and maintain evidential matter.
- Assign resources and enforce accountability to locate and provide evidential matter in a timely manner.
- Update policies and procedures to define the key evidential matter that is required to support financial statement amounts and performance of controls, require evidential matter to agree with the general ledger detail, and require evidential matter to be readily available for inspection.
- Provide guidance and training to personnel to document and retain documentation of the operation of controls.
- Assign resources to timely implement corrective actions, including actions to improve information technology access, segregation of duties, configuration management, security management, and job processing controls.

H. Information Technology Controls

Management and its service providers continued to improve Information Technology (IT) controls; however, they did not effectively design, implement, and operate certain IT controls to protect the financial systems and related financial data. In addition, management did not implement compensating controls to address service providers' IT controls that were not effectively designed, implemented, or operated. Our findings are summarized as follows:

- Access Controls. Management and its service providers did not consistently design, implement, and operate the application, database, and operating system access controls around the authorization, provisioning, monitoring, and deactivation of end, privileged, temporary, and system administrative users. In addition, management did not consistently identify complete and accurate user populations. Management and its service providers did not consistently conduct and document periodic reviews of user accounts to remove access for terminated, transferred, or inactive employees and contractors, and to confirm the need for continued and appropriate access, based on least privilege principles and user activity. In addition, management and its service providers did not consistently design and implement application, database, and operating system audit logging controls, including audit log configuration, security event identification, tracking, evaluation, management review, and response procedures, as well as restricting log report access to an independent person. Further, management and its service providers did not properly design and implement application, database, and operating system password security and inactivity configuration parameters.
- Segregation of Duties. Management and its service providers did not design controls to define segregation of duties conflicts to prevent and detect incompatible access combinations for certain application, database, and operating systems.
- Configuration Management. Management and its service providers did not consistently operate database configuration change management controls, including evidencing production environment change approvals. In addition, management and its service providers did not consistently validate that users with access to the development, staging, and production environments did not have the ability to develop code and migrate code to the production environment.
- Security Management. Management and its service providers did not effectively operate vulnerability management programs for certain database and operating systems.
- Job Processing. Management and its service providers did not consistently design, implement, and operate controls to appropriately restrict access to the job scheduler. In addition, management did not properly design and implement processes for modifying job schedules, including requiring approval prior to implementation of job schedule changes.

The above conditions primarily resulted because management and its service providers did not fully identify and address risks, develop, document, and implement policies and controls, assign sufficient resources to certain responsibilities, provide sufficient oversight and monitoring of the control environment, address system limitations, and timely implement corrective actions.

The criteria are as follows:

- GAO S*tandards for Internal Control in the Federal Government*

- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53: *Security and Privacy Controls for Federal Information Systems and Organizations*, *Revision 5,* dated September 2020
- Army policies and guidance

As a result of the deficiencies noted above, there is an increased risk over the completeness, accuracy, validity, and availability of the systems and their financial data, and a potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations

We recommend that management perform, or work with its service providers to perform, the following:

- Identify risks and design, document, implement and effectively operate policies and controls to address the risks to protect the accuracy, integrity, validity, confidentiality, and availability of the financial systems and data.
- Prioritize corrective actions to design, document, implement and effectively operate policies and controls for access controls, segregation of duties, configuration management, security management, and job processing at the operating, database, and application layers.
- Implement compensating controls to address service providers' IT controls that are not effectively designed, implemented, or operated.
- Train personnel to properly perform controls, maintain control documentation, and monitor the performance of IT controls.

I. Accruals

Management and its service providers continued to make progress improving controls over accruals; however, they did not fully design, document, and implement controls over goods and service accruals as follows:

- Management and its service providers did not fully design, document, and implement controls to completely identify and record accruals for certain goods or services as of period-end, review accrual reports and transactions, and appropriately classify accruals as intragovernmental versus with the public.
- Management did not fully design and implement controls to determine that goods and service transactions were valid and recorded at the proper amount and in the proper period.

The above conditions primarily resulted because management and its service providers did not perform a complete risk assessment to identify all risks related to accruals, and did not fully design, document, and implement policies, controls, and accrual methodologies to address such risks. Additionally, management did not configure financial systems to support the accrual process and did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Environment*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities,* SFFAS 3: *Accounting for Inventory and Related Property,* and SFFAS 5: *Accounting for Liabilities of the Federal Government*
- Army policies and guidance
- DoD policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Design, document, and implement controls to identify and record accruals, review accrual reports and transactions, and properly classify accruals as intragovernmental versus the public.
- Develop and implement controls and configure the financial system to determine that accruals and transactions are recorded at the proper amount and in the proper period.
- Design, document, and implement monitoring controls to determine that accrual policies and controls are properly implemented and performed.
- Evaluate and update the financial system configuration to properly interface with other systems, and appropriately record the accruals as either intragovernmental or non-federal.
- Assign resources to timely implement corrective actions.

J. Financial Reporting and Journal Entries

Management and its service providers continued to make progress improving controls over financial reporting; however, they did not effectively design, implement, and operate controls as follows:

- Management and its service providers did not implement controls to identify all transactions that are required to follow the designed journal entry control process. In addition, management and its service providers did not properly design and implement controls to fully support certain manual journal entries, and timely evidence review of the journal entries.
- Management and its service providers did not fully research the root cause of budgetary to proprietary relationship imbalances that management recorded manual journal entries to resolve.
- Management did not configure certain financial systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not fully design and implement controls to analyze all financial processes to determine that transactions were recorded consistent with USSGL requirements and accounting standards, or document the analysis was completed.
- Management did not consistently perform management review controls over the financial reporting process as management did not consistently prepare public-private partnership reports that are used to prepare the consolidated financial statements and note disclosures.
- Management did not fully design and operate the joint reconciliation program review to timely identify and adjust aged, closed, or invalid amounts related to undelivered orders, unfilled customer orders, accounts receivable, goods or invoice receipt, and accounts payable. Furthermore, management did not adhere to its policies and procedures for performing the joint reconciliation program review to timely correct invalid balances.
- Management and its service providers did not effectively implement policies and controls to properly record and support obligation, undelivered order, upward or downward adjustment, expense, payment, accrual, and accounts payable transactions.

The above conditions primarily resulted because of the following:

- Management and its service providers did not fully complete risk assessment procedures to understand and document all financial reporting risks, did not fully establish policies and controls to respond to financial reporting risks, and did not verify that the consolidated financial statements and note disclosures are properly prepared.
- Management and its service providers did not fully assign responsibility to key roles throughout the entity, allocate sufficient resources to perform control responsibilities, provide sufficient guidance and training to personnel, enforce accountability of individuals performing responsibilities, monitor control responsibilities, and configure its feeder systems and financial systems to appropriately record transactions.
- Management and its service providers did not consistently use quality information, communicate quality information, obtain relevant data from reliable internal and external sources in a timely manner, or process data into quality information to support financial reporting controls.
- Management and its service providers did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*, SFFAS 3: *Accounting for Inventory and Related Property*, SFFAS 6: *Accounting for Property, Plant, and Equipment*, and SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control,* OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget,* and OMB Circular No. A-136: *Financial Reporting Requirements*
- Treasury Financial Manual
- Federal Financial Management Improvement Act of 1996
- DoD policies and guidance
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Complete risk assessments to identify financial statement risks, and design, document, and implement policies and controls to verify that the consolidated financial statements and note disclosures are properly prepared and supported, including public-private partnership disclosures.
- Continue to implement policies and controls to identify all manual journal entries and demonstrate that all transactions are covered by journal entry or accounting process controls.
- Design and implement controls to properly review and support manual journal entries recorded in the accounting and financial reporting systems, maintain such documentation so it is readily available for review, and monitor such controls.
- Research the root cause of budgetary to proprietary relationship imbalances and implement controls to eliminate the need for manual journal entries to resolve the imbalances.
- Design and implement controls and policies to determine that the posting logic library is complete and accurate, review system posting models to verify they are consistent with the USSGL guidance and the accounting standards, and maintain documentation evidencing completion of such controls.
- Enhance the joint reconciliation program policies and timeline to timely record adjustments to undelivered order, unfilled customer order, accounts receivable, goods or invoice receipt, and accounts payable amounts for inclusion in the consolidated financial statements.
- Develop, implement, and monitor controls over properly recording and supporting obligation, undelivered order, upward or downward adjustment, expense, payment, accrual, and accounts payable transactions.

- Assign responsibility to key roles throughout the entity, allocate sufficient resources to perform financial reporting controls, provide guidance and training to personnel, enforce accountability of individuals performing responsibilities, and monitor controls.
- Use quality information, communicate quality information, obtain relevant data from reliable internal and external sources, and process data into quality information to support financial reporting controls.
- Assign resources to timely implement corrective actions.

K. Intragovernmental Transactions and Intra-entity Eliminations

Management and its service providers did not properly design and implement controls over intragovernmental and intra-entity transactions as follows:

- Management and its service providers did not properly design and implement controls for intragovernmental transactions as they did not record the trading partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. In addition, management did not effectively reconcile with its trading partners, or sufficiently support adjustments recorded to match amounts provided by trading partners.
- Management and its service providers did not properly design and implement controls for intra-entity transactions as they did not determine whether certain activity should be eliminated and did not fully support elimination adjustments.
- Management did not design and implement controls to identify intra-entity transactions within the unfilled customer order and undelivered order populations.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment to understand and document all financial reporting risks, or fully establish policies and controls to respond to such risks.
- The financial systems and processes were not designed to capture quality information and all relevant data elements at the detailed transaction level for identifying trading partner, to include intra-entity activity, and the financial systems were not configured to properly record certain transactions.
- Management and its service providers did not obtain relevant data in a timely manner for use in identifying intra-entity transactions.
- Management and its service providers did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-136: *Financial Reporting Requirements*
- Treasury Financial Manual
- DoD policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with its service providers to perform, the following:

- Configure the financial system to record the trading partner information at the transaction level to enable management and its service providers to report, reconcile, and eliminate intragovernmental balances.

- Complete a risk assessment process and develop, document, and implement policies and controls to properly reconcile with trading partners at the transaction level, and have sufficient evidence to support reconciliation adjustments.
- Complete a risk assessment process, design, and implement controls, and configure the financial system to appropriately identify and eliminate intra-entity amounts, properly record transactions, and maintain documentation to support adjustments recorded.
- Design, document, and implement controls to obtain relevant data from reliable sources to prepare complete and accurate intra-entity populations.
- Assign resources to timely implement corrective actions.

L. Completeness

Management and its service providers did not fully design, document, and implement controls to validate that financial transactions are completely and accurately reported in the consolidated financial statements as follows:

- Management and its service providers did not fully design and implement reconciliation processes to validate that financial information is transferred completely and accurately between feeder systems, and from feeder systems to the financial system.
- Management and its service providers did not perform an assessment of the appropriateness of the reconciliation thresholds used or evidence that the unreconciled items were immaterial.
- Management and its service providers did not design and implement an appropriate reconciliation timeline to research and resolve reconciliation differences for financial reporting or retain sufficient reconciliation documentation.
- Management did not design, document, and implement controls over certain key financial metrics used to determine when research and resolution of reconciliation variances is required.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process for certain reconciliations, design and implement control activities and policies to fully respond to risks, and monitor and enforce the execution of policies and procedures over certain reconciliations.
- Management did not properly design certain information systems to obtain and process source data for use in reconciliations and, as a result, the defined information requirements were not met.
- Management and its service providers did not communicate quality information down and across reporting lines and develop and train personnel to achieve the entity’s reconciliation objectives.
- Management and its service providers did not assign sufficient resources to perform all reconciliations and implement corrective actions over reconciliations.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 3: *Accounting for Inventory and Related Property*
- DoD policies and guidance
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Document a risk assessment for reconciliations, enhance reconciliation policies and procedures, and design and implement reconciliation controls to verify that financial information is transferred completely and accurately between systems, and data used in the reconciliations is complete and accurate.

- Complete a periodic analysis of the appropriateness of the reconciliation thresholds used to demonstrate that the financial statement impact of unreconciled items under the thresholds is immaterial.
- Assign resources to complete all reconciliations within the financial reporting timelines, provide training to individuals performing reconciliations, communicate quality information down and across reporting lines, and timely implement corrective actions to reconcile transactional data between systems.
- Design, document, and implement controls over key metrics used to determine when research and resolution of reconciliation variances is required.
- Design and fully implement controls to monitor and enforce the timely extraction of system data, completion of reconciliations, resolution of reconciliation differences, and maintenance of supporting documentation so it is readily available for inspection.

M. Entity Level Controls – Enterprise Responsibilities

Management did not properly design and implement enterprise responsibility controls as follows:

- Management did not finalize its internal control oversight body charter to define the purpose, responsibilities, and members of such.
- Management did not properly design its risk management internal control program guidance to include all risks and tolerances.
- Management did not implement controls to demonstrate performance appraisals were effectively completed.

The above conditions primarily resulted because of the following:

- Management did not fully complete risk assessment procedures to understand all financial reporting risks, and did not fully establish controls to respond to financial reporting risks.
- Management did not oversee the design, implementation, and operation of the organizational structure to enable management to fulfill its enterprise responsibilities.
- Management did not assign resources to monitor and enforce accountability of individuals performing control responsibilities.
- Management did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Federal Managers' Financial Integrity Act of 1982
- DoD policies and guidance

Without effective enterprise responsibility controls, the potential exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have material weaknesses over financial reporting.

Recommendations:

We recommend that management perform the following:

- Complete risk assessment procedures, establish enterprise responsibility controls, and timely document and implement corrective actions.
- Finalize its internal control oversight body charter to include the purpose, responsibilities, and members who should oversee the design, implementation, and operation of the organizational structure.
- Design and its risk management internal control program guidance to include all risk types and tolerances.
- Enforce accountability of individuals to fully demonstrate performance appraisals are effectively completed.

N. Entity Level Controls – Other

Management did not properly design and implement entity level controls, including the control activities described in previous sections of Exhibit I and Exhibit II, to establish a control system that will produce reliable financial reporting. Specifically:

Control Environment. Management did not establish an effective control environment. For example, management did not:

- Fully establish an oversight body to oversee the design, implementation, and operation of the Army WCF's control system.
- Develop an organizational structure with an understanding of the overall responsibilities and assign these responsibilities appropriately.
- Consistently develop policies to establish and implement controls across its control environment, and did not develop and maintain sufficient documentation of the control system.
- Consistently recruit, develop, and retain competent personnel to achieve the Army WCF's financial reporting objectives, establish expectation of competence, and hold individuals accountable for their control responsibilities.

Risk Assessment. Management did not consistently design and implement its risk assessment controls. For example, management did not:

- Define certain objectives in specific and measurable terms to enable the design of controls for related risks.
- Define measurable risk tolerance for each objective in the risk profile for reporting organizations or define risk objectives and tolerances for certain financial process areas.
- Complete its risk assessment process to identify, analyze, and address certain risks for the financial statements and note disclosures required by OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*.
- Analyze and respond to identified changes and related risks to maintain an effective control system.

Information and Communication. Management did not fully design and implement its information and communication controls. For example, management did not:

- Fully design and implement controls over the identification, quality, and reliability of financial data and supporting documentation.
- Fully design a process that uses the entity's objective and related risks to identify the information requirements needed to achieve the objectives and address the risks.
- Consistently obtain and communicate quality information down and across internal and external reporting lines.

Monitoring. Management did not fully design and implement monitoring controls. For example, management did not:

- Fully monitor and evaluate entity level, manual, general information technology, system application, and service organization controls for key financial statement line items, note disclosures, and the associated financial risks.

- Fully define service organization responsibilities, and identify and evaluate service organization and complimentary user entity controls noted by the service organizations.
- Design and implement controls to address control deficiencies at service organizations, or perform assessments for service organizations that did not have an examination.
- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

The above conditions primarily resulted because management and its service providers did not assign the appropriate level of resources to achieve control objectives, enforce accountability of individuals performing control responsibilities, consistently perform risk assessment procedures to identify all relevant risks, properly design, document and implement controls to respond to risks, disseminate quality information on a timely basis across the entity, consistently monitor the control environment, and timely complete its corrective action efforts for previously identified deficiencies.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Federal Managers' Financial Integrity Act of 1982
- Army policies and guidance

Without effective entity level controls, the risk exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have material weaknesses over financial reporting.

Recommendations:

We recommend that management perform the following:

- Establish an oversight body and organizational structure with documented roles, responsibilities, and membership to oversee the design, implementation, and operation of the Army WCF's control system.
- Continue to develop and implement controls across its control environment, including maintenance of a control catalogue that includes all controls with detailed steps and documentation readily available to support the control system.
- Continue to focus on recruiting, developing, and retaining appropriate personnel to achieve the Army WCF's financial reporting objectives, establish expectations of competence, and effectively enforce accountability of individuals performing their control responsibilities.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas.
- Consider risks associated with prior year findings, the financial statements, note disclosures, and changes to processes required by OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, and analyze and respond to such risks through the design and implementation of controls.

- Develop, document, and implement controls over the identification, quality, and reliability of financial data and supporting documentation.
- Communicate policies, procedures, controls, and quality information down and across internal and external reporting lines.
- Continue efforts to develop and complete the control evaluation program covering the entity level, manual, general information technology, system application, and service organization controls for key financial statement line items, note disclosures and financial risks.
- Define service organization responsibilities, and identify and evaluate all service organization and complementary end user controls.
- Obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports, and implement controls to address control deficiencies at service organizations.
- Continue efforts to develop and implement corrective actions related to control deficiencies.

A. Fund Balance with Treasury (FBwT)

Management and its service providers improved the FBwT reconciliation controls; however, management and its service providers did not fully design, implement, and operate reconciliation controls as follows:

- Management and its service providers did not fully implement and operate controls over timely research and resolution of all FBwT reconciling items in accordance with policies and guidance.
- Management and its service providers did not design the timing of the year-end FBwT reconciliation to be fully completed and documented to include the resolution of all variances for the year-end financial statements.
- Management and its service providers did not design and implement controls to fully reconcile the transactional voucher level details to the undistributed adjustments, timely resolve all reconciliation items, and provide appropriate support for certain adjustments.

The above conditions primarily resulted because management and its service providers process a large volume of FBwT transactions, and did not fully implement procedures and controls, timely process data obtained into quality information, and timely implement corrective actions to remediate control deficiencies.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*
- OMB Circular No. A-136: *Financial Reporting Requirements*
- Treasury Financial Manual
- DoD policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Continue to implement and operate controls to timely resolve and adjust for FBwT reconciling items in accordance with policies and guidance.
- Complete the year-end FBwT reconciliation so that all variances are resolved and adjusted for the year-end financial statements.
- Work with the Office of the Secretary of Defense to design and implement processes and controls to accelerate availability of undistributed transaction-level detail, resolve all reconciling items, and verify that undistributed journal vouchers are properly recorded and supported.
- Assign resources to timely implement corrective actions.

A. Federal Managers' Financial Integrity Act of 1982

Management performed an internal control assessment as required under the Federal Managers' Financial Integrity Act of 1982; however, management's assessment did not substantially comply with the Federal Managers' Financial Integrity Act of 1982 and the related OMB Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requirements as follows:

- Management did not effectively design its internal control assessment to address managing privacy risks and conducting acquisition assessments as required by OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control,* and did not define risk tolerances in its risk assessment template.
- Management did not effectively execute its internal control assessments as management did not consistently document the internal control evaluation plans, financial statement assertions, testing procedures, sample sizes, testing results, and evidence of management review.
- Management did not test all relevant controls and consistently develop and maintain corrective action plans.

The above conditions primarily resulted because of the following:

- Management did not perform sufficient risk assessment and prioritize implementation of all Federal Managers' Financial Integrity Act of 1982 and OMB No. A-123: Management's Responsibility for Enterprise Risk Management and Internal Control requirements when designing their internal control assessment.
- Management did not hold individuals accountable for their assigned responsibilities and monitor the internal assessment program.
- Management did not monitor the status of remediation efforts and timey implement corrective actions.

The criteria are as follows:

- Federal Managers' Financial Integrity Act of 1982
- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Army policies and guidance

The Army WCF did not substantially comply with Federal Managers' Financial Integrity Act of 1982 and the related OMB No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control* requirements, which may lead to not identifying the appropriate risks, key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting deficiencies could cause misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Update internal control assessment guidance and risk assessment template to address managing privacy risks, conducting acquisition assessments, and defining risk tolerances as required by

OMB No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*.

- Enforce accountability of individuals performing responsibilities, and monitor reporting organizations to determine that individuals effectively perform and document risk and internal control assessments.
- Communicate and enforce policies on documenting internal control evaluation plans, financial statement assertions, testing procedures, sample sizes, testing results, corrective actions, and evidence of management review.
- Perform and document the internal control assessment for all relevant entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.
- Assign resources to timely implement corrective actions.

B. Federal Financial Management Improvement Act of 1996

The Army WCF financial systems did not substantially comply with the following Federal Financial Management Improvement Act of 1996 requirements:

- **Federal Financial Management Systems Requirements**. As discussed in Exhibit I – Material Weaknesses and Exhibit II – Significant Deficiencies, management and its service providers did not implement sufficient and effective financial and information technology controls to consistently support reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. As a result, the Army WCF did not substantially comply with the federal financial management systems requirements.
- **Federal Accounting Standards**. As discussed in Exhibit I – Material Weaknesses and Exhibit II – Significant Deficiencies, management and its service providers did not properly design, implement, and effectively operate controls, which affected management's ability to prepare the consolidated financial statements and support the amounts reported in the consolidated financial statements in accordance with the federal accounting standards. Additionally, management's guidance, corrective action plans, and self-assessment did not address the federal accounting standard requirements. As a result, the Army WCF did not substantially comply with the federal accounting standards requirements.
- **U.S. Standard General Ledger**. Management did not configure certain financial management systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not fully demonstrate that management analyzed all financial processes to determine transactions are recorded consistently with USSGL requirements or document the analysis completed. Additionally, management's guidance, corrective action plans, and self-assessment did not address the USSGL requirements. As a result, the Army WCF did not substantially comply with the USSGL requirements.

The above conditions primarily resulted because of the following:

- The Army WCF did not substantially meet Federal Financial Management Improvement Act of 1996 requirements because of the reasons discussed in Exhibit I – Material Weaknesses and Exhibit II – Significant Deficiencies, and did not fully perform a risk assessment, evaluate information objectives, and design and document controls in response to the risks and objectives.
- Management and its service providers did not perform appropriate monitoring of controls.
- Management and its service providers did not consistently assign and document control responsibilities.
- Management and its service providers did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- Federal Financial Management Improvement Act of 1996
- Treasury Financial Manual

- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD policies and guidance

As a result of the deficiencies noted above, the financial systems did not substantially comply with Federal Financial Management Improvement Act of 1996, and the potential exists that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Complete risk assessment, assign and document control responsibilities, and timely implement the recommendations discussed in Exhibit I – Material Weaknesses and Exhibit II – Significant Deficiencies to support compliance with the federal financial management system, federal accounting standard, and USSGL requirements.
- Address the federal accounting standards and USSGL requirements in management's guidance, corrective action plans, and self-assessments.
- Configure financial management systems and processes to comply with the USSGL requirements and design and document controls to demonstrate that management analyzed all financial processes to determine transactions are recorded consistently with USSGL requirements.

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DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FOI

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2023 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the audit report. We concur with the findings described in the report and remain committed to taking corrective actions to address the identified material weaknesses, significant deficiencies, and instances of non-compliance.

2. The outcomes of our ongoing audit readiness efforts, including the implementation of corrective actions from previous audit findings, highlight the Army's dedication to resolving long-standing financial reporting issues. In FY23, the Army Working Capital Fund was able to downgrade one material weakness – Fund Balance with Treasury and realign the conditions of General Ledger Adjustments to Financial Reporting to accurately identify the business process. We have prioritized and focused our remediation efforts on the following areas for FY 2024:

a. Secretary of Defense Audit Priorities

(1) User Access Controls

(2) Universe of Transactions and Financial Reporting Internal Controls

(3) Optimization of Asset Valuations

b. Army Working Capital Fund Audit Priorities

(1) Environmental Disposals & Liabilities

(2) Accruals

(3) Financial Reporting

(4) Real Property

(5) General Equipment

(6) IT Controls over Financially Significant Systems

(7) Entity-level Controls and an expanded RMIC Program

(8) Inventory Internal Controls

3. We are committed to resolving our material weaknesses, significant deficiencies, and improving all aspects of operations and financial management.

4. The Army will maintain its collaborative approach, both internally and externally, with all stakeholders to implement the systems, processes, and internal controls necessary to achieve accurate financial statements prepared in accordance with generally accepted accounting principles. This commitment aims to not only secure an unmodified audit opinion but, more importantly, to improve the quality and timeliness of the data used to efficiently and effectively manage the resources provided to us by the Congress and the American taxpayer.

RAMSEY.MICHAEL.ALLEN.[redacted]
Digitally signed by RAMSEY.MICHAEL.ALLEN.[redacted]
Date: 2023.11.07 11:17:14 -05'00'

Michael A. Ramsey
Deputy Assistant Secretary of the Army
(Financial Operations and Information)

Department of Defense – Army Working Capital Fund

CONSOLIDATED BALANCE SHEETS

As of September 30, 2023 and 2022

(Amounts in Thousands)	2023 Consolidated	2022 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 3,472,498	$ 3,061,124
Accounts Receivable, Net (Note 6)	182,130	176,367
Total Intragovernmental Assets	$ 3,654,628	$ 3,237,491
Other Than Intragovernmental		
Cash and Other Monetary Assets (Note 4)	$ 3,916	$ 10,007
Accounts Receivable, Net (Note 6)	7,152	7,876
Inventory and Related Property, Net (Note 8)	19,691,775	20,210,864
General Property, Plant and Equipment, Net (Note 9)	2,198,283	2,083,876
Advances and Prepayments (Note 10)	91,533	106,836
Total Other Than Intragovernmental	21,992,659	22,419,459
TOTAL ASSETS	$ 25,647,287	$ 25,656,950
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable	$ 185,389	$ 116,604
Advances from Others and Deferred Revenue	738	738
Other Liabilities (Note 15 & 16)	60,959	57,600
Total Intragovernmental Liabilities	$ 247,086	$ 174,942
Other Than Intragovernmental		
Accounts Payable	$ 520,323	$ 256,255
Federal Employee and Veteran Benefits (Note 13)	194,157	187,137
Environmental and Disposal Liabilities (Note 14)	496,435	692,047
Advances from Others and Deferred Revenue	110,210	70,868
Other Liabilities (Note 15 & 17)	234,567	224,328
Total Other Than Intragovernmental	1,555,692	1,430,635
TOTAL LIABILITIES	$ 1,802,778	$ 1,605,577
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET POSITION		
Unexpended Appropriations – Funds Other than Dedicated Collections	$ 119,314	$ 460,001
Total Unexpended Appropriations (Consolidated)	119,314	460,001
Cumulative Results of Operations - Funds Other than Dedicated Collections	23,725,195	23,591,372
Total Cumulative Results of Operations - (Consolidated)	23,725,195	23,591,372
TOTAL NET POSITION	$ 23,844,509	$ 24,051,373
TOTAL LIABILITIES AND NET POSITION	$ 25,647,287	$ 25,656,950

The accompanying notes are an integral part of these financial statements.

Department of Defense – Army Working Capital Fund

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2023 and 2022

(Amounts in Thousands)	2023 Consolidated	2022 Consolidated
Program Costs		
Gross Costs	$ 14,933,507	$ 14,437,125
Operations, Readiness & Support	14,933,507	14,437,125
(Less: Earned Revenue)	(14,801,133)	(15,186,375)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	132,374	(749,250)
Net Program Costs Including Assumption Changes	$ 132,374	$ (749,250)
Net Cost of Operations (Note 19)	$ 132,374	$ (749,250)

The accompanying notes are an integral part of these financial statements.

Department of Defense – Army Working Capital Fund

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2023 and 2022

(Amounts in Thousands)	2023 Consolidated	2022 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 460,001	$ 135,623
Beginning Balances, as adjusted	460,001	135,623
Appropriations transferred-in/out	144,937	499,711
Appropriations used	(485,624)	(175,333)
Net Change in Unexpended Appropriations	(340,687)	324,378
Total Unexpended Appropriations, Ending Balance	$ 119,314	$ 460,001
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 23,591,372	$ 22,571,375
Prior Period Adjustments	-	-
Beginning Balance, as adjusted	23,591,372	22,571,375
Appropriations used	485,624	175,333
Nonexchange revenue (Note 20)	8	4
Transfers-in/out without reimbursement (+/-)	(413,627)	(57,790)
Imputed financing from costs absorbed by others	194,200	153,204
Other (+/-) (Note 20)	(8)	(4)
Net Cost of Operations (+/-)	132,374	(749,250)
Net Change in Cumulative Results of Operations (+/-)	133,823	1,019,997
Cumulative Results of Operations, Ending	23,725,195	23,591,372
Net Position	$ 23,844,509	$ 24,051,373

The accompanying notes are an integral part of these financial statements.

Department of Defense – Army Working Capital Fund

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2023 and 2022

(Amounts in Thousands)		2023 Combined		2022 Combined
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$	2,865,524	$	3,383,852
Appropriations (discretionary and mandatory)		144,937		499,711
Contract Authority (discretionary and mandatory)		8,807,416		6,561,600
Spending Authority from offsetting collections (discretionary and mandatory)		5,896,741		3,789,489
Total Budgetary Resources	$	17,714,618	$	14,234,652
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$	13,925,208	$	11,078,355
Unobligated balance, end of year:				
Apportioned, unexpired accounts		3,789,410		3,156,297
Unexpired unobligated balance, end of year		3,789,410		3,156,297
Unobligated balance, end of year (total)		3,789,410		3,156,297
Total Budgetary Resources	$	17,714,618	$	14,234,652
Outlays, net				
Outlays, net (total) (discretionary and mandatory)		(842,624)		(787,760)
Agency Outlays, net (discretionary and mandatory)	$	(842,624)	$	(787,760)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – WORKING CAPITAL FUND

Note 1. Significant Accounting Policies

1.A. Reporting Entity

The United States (U.S.) Department of the Army's ("Army") mission is to support the national security and defense strategies by providing well-trained, well-led, and well-equipped forces to the Combatant Commanders. This mission encompasses the intent of the Congress, as defined in Title 10 and Title 32 of the U.S.C., to preserve peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

In support of the Army's overarching mission discussed above, the mission and purpose of the Army Working Capital Fund (WCF) is to provide Army General Fund (GF) and other DoD entities, the supplies, equipment, and ordnance necessary to protect, sustain, and reconstitute forces. The Army WCF reporting entity and related financial statements includes two activity groups: Supply Management Activity (SMA) and Industrial Operations (IO). The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The IO activity group provides the Army an organic industrial capability to conduct depot level maintenance, repair, and upgrade; manufacture munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of the Department of Defense (DoD).

1.B. Basis of Presentation and Accounting

The Army WCF's financial statements have been prepared to report the financial position and results of operations of the U.S. Department of the Army WCF, as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other applicable legislation.

The financial statements have been prepared from the records of the Army WCF in accordance with and to the extent possible, U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB). The Army WCF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position and Combined Statements of Budgetary Resources, in accordance with Office of Management and Budget (OMB) Circular Number A-136, *Financial Reporting Requirements*. Accounting standards also allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Army WCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army WCF business areas. The Army WCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems.

1.C. Appropriations and Funds

The Army WCF received its initial cash corpus through an appropriation from Congress to finance initial operations. The Army WCF provides goods and services 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. The Army WCF uses contract authority which permits obligations to be incurred in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. While reimbursable authority may be subject to apportionment by the OMB, recovered (deobligated) contract/reimbursable authority is subject to automatic reapportionment. In addition, Congress may appropriate funds to finance specific programs within the Army WCF.

1.D. Basis of Accounting

The Army WCF's financial statements and supporting trial balances are compiled from the underlying proprietary and budgetary financial data of the Army WCF. The Army WCF records financial transactions on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned, and costs/expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds may be recognized in advance of the proprietary accruals. Budgetary basis of accounting facilitates compliance with legal requirements and controls over the use of Federal funds. Under the budgetary basis of accounting, Army WCF records budgetary authority when authorized through legislation or agreements with customers and records new obligations when the Army WCF signs a contract for goods or services or takes other actions that requires Army WCF to make payments. In addition, Army WCF records outlays when disbursements are made and receipts when received.

1.E. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements. Significant estimates that affect Army WCF financial statements include, but are not limited to, estimates for Environmental & Disposal Liabilities (E&DL), the valuation of some classes of inventory, payroll and benefit accruals, contingent liabilities, goods and services accruals, and useful lives of property, plant, and equipment. Actual results may differ from those estimates; therefore, estimates are adjusted to reflect actuals during the period they become available.

1.F. Revenues and Other Financing Sources

The Army WCF earns revenue as a result of costs incurred for goods and services provided to the Army GF, other federal agencies, and to the public. Army WCF utilizes full-cost pricing, as defined in Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, for services provided as required by OMB Circular A-25, *User Charges*.

The Army WCF revenue is primarily the result of exchange transactions, which arises when the Army WCF provides goods and services to the public or to another government entity for a price. The IO business area recognizes revenue according to the percentage-of-completion method. The SMA business area recognizes revenue when inventory is sold and issued to customers.

1.G. Recognition of Expenses

The Army WCF recognizes costs at the time the expense is incurred, or benefit received, regardless of whether an invoice has been received. Cost is the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce goods or to perform services. The costs that apply to the Army WCF operations in that period are recognized as either cost of goods sold or operating expenses in that period.

1.H. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual, Volume 1, Part 2 – Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army WCF cannot accurately identify intragovernmental transactions by customer because there are some instances when Army WCF systems do not track buyer and seller data at the transaction level. DoD entities and other federal entities who sell to the Army WCF ("Sellers") provide summary balances for revenue, accounts receivable, and unearned revenue to the Army WCF. In most cases, the Army WCF adjusts the reciprocal account balances (i.e. expenses, accounts payable, and liabilities for advances and prepayments) to agree with the seller's details which allows intragovernmental balances to be eliminated at the consolidated DoD level. The Army WCF is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable the Army WCF to correctly report, reconcile, and eliminate intragovernmental balances.

Imputed financing represents the cost paid on behalf of the Army WCF by another Federal entity. The Army WCF recognizes imputed costs for: (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 certain litigation proceedings. Consistent with SFFAS 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

The Army WCF's proportionate share of public debt is not included in the financial statements. The Federal Government does not apportion debt and its related costs to federal agencies.

1.I. Transactions with Foreign Governments and International Organizations

The DoD implements the administration's foreign policy objectives under the provisions of the *Arms Export Control Act of 1976* through the Foreign Military Sales (FMS) trust fund, which facilitates the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations. In doing so, the Army WCF may perform reimbursable activities on behalf of the FMS trust fund. The cost of administering these sales is required to occur at no cost to the Federal Government. For each sale, the foreign government makes an advance payment in U.S. dollars as required to the FMS trust fund. The FMS trust fund subsequently reimburses the Army WCF.

1.J. Nonentity Assets

The Army WCF classifies assets as either entity or nonentity. Entity assets are those that the Army WCF has authority to use for its operations. Nonentity assets are not available for use in the Army WCF's normal operations. Nonentity assets are offset by liabilities to third parties and have no impact on Net Position. For additional information, see Note 2, *Nonentity Asset*s.

1.K. Fund Balance with Treasury

The Army WCF maintains its monetary resources of collections and disbursements in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), Military Departments, U.S. Army Corps of Engineers (USACE), and the financial service centers of the Department of State process the majority of worldwide cash collections, disbursements, and adjustments of the Army WCF. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBwT) account. On a monthly basis, the Army WCF FBwT is reconciled and adjusted to agree with the U.S. Treasury accounts. For additional information, see Note 3, *Fund Balance with Treasur*y.

1.L. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army WCF including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. For additional information, see Note 4, *Cash and Other Monetary Assets*.

1.M. Accounts Receivable

Accounts receivable from other federal entities or the public include reimbursements, claims receivable, and refunds receivable. Allowances for doubtful accounts (estimated uncollectible amounts) due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history by aging category. In addition, any claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in Appendix 5 of the *Treasury Financial Manual*, Volume I, Part 2, Chapter 4700. For additional information, see Note 6, *Accounts Receivable, Net*.

The Army WCF records interest receivable as nonentity assets. Nonentity assets are not available for use in the Army WCF's normal operations. For additional information, see Note 2, *Nonentity Assets*.

1.N. Direct Loans and Loan Guarantees

Not Applicable

1.O. Inventories and Related Property

On October 1, 2018, the Army WCF adjusted the value of certain inventory from moving average cost to deemed cost. However, the Army WCF use of deemed cost was not in accordance with SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* because Army WCF did not make an unreserved assertion that its inventory is presented fairly in accordance with U.S. GAAP. The Army WCF is implementing corrective actions to be able to make an unreserved assertion for inventory beginning balances in the future.

The Army WCF Inventory and Related Property is categorized as follows:

Inventory Held for Sale – This includes both consumable, non-reparable as well as reparable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method for inventory recorded after considering the deemed cost adjustment as of October 1, 2018 that is discussed above.

Inventory Held for Repair – This includes damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Army WCF values inventory held for repair using the direct method. SFFAS 3, *Accounting for Inventory and Related Property,* and Interpretation 7*, Items Held for Manufacture* require that inventory held for repair and resale reflects the accumulation of capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Raw Material – This includes material to be used in the IO mission. Raw material is valued using the moving average cost method.

Excess, Obsolete, and Unserviceable (EOU) – Excess inventory is inventory that exceeds management requirements to meet the Army WCF mission. Obsolete inventory is inventory that is no longer needed due to changes in technology, laws, customs, or operations. Unserviceable inventory is damaged inventory that is non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account.

Work in Process – Work in Process includes (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost to repair) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

Operating Materiel and Supplies (OM&S) – OM&S includes stocked items to be used for equipment and facilities maintenance at the Industrial Operations sites. OM&S is valued at the moving average cost method. There are no restrictions on the use of OM&S. For additional information, see Note 8, *Inventory and Related Property, Net*.

1.P. Investments and Related Interest

The Army WCF does not currently have Investments in U.S. Treasury Securities.

1.Q. General Property, Plant and Equipment

Consistent with SFFAS 6, *Accounting for Property, Plant, and Equipment, General Property, Plant and Equipment* (General PP&E) assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Army WCF capitalization threshold. The Army WCF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Army WCF depreciates all General PP&E, other than Construction-in-Progress, on a straight-line basis over the estimated useful life. The Army WCF has not adopted SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment,* except for land and land rights. In accordance with SFFAS 50, paragraph 40.f.i, the Army WCF excludes land and land rights from its reported property, plant and equipment balances on the balance sheet. Instead, the Army WCF discloses acreage information and expenses acquisitions. The Army WCF is currently reporting known acquisition costs for Buildings, Structures, and Facilities; General Equipment; Software; Construction-In-Progress; and Leasehold Improvements.

The Army's WCF's General PP&E capitalization threshold is $250 thousand. With the exception of General Equipment, the $250 thousand capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. For General Equipment, the capitalization threshold was applied retroactively. All other Army WCF General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels of $100 thousand except for real property, which is $20 thousand, and are carried at their remaining net book value.

As of October 1, 2019, the Army follows the Office of the Under Secretary of Defense (Comptroller) policy which requires the financial reporting of real property to be the responsibility of the installation host on whose installation a real property asset is located.

For additional information, see Note 9, *General Property, Plant and Equipment, Net*.

1.R. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Army WCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Army WCF records the asset and the liability at the lesser of the present value of the rental and other 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 Army WCF as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. The Army WCF reports leases that do not meet the capital lease criteria as an operating lease and expenses lease payments when they become payable. The future minimum operating lease payments are based on amounts obtained from existing leases, GSA bills, and inter-service support agreements. For additional information, see Note 16, *Leases*.

1.S. Other Assets

Other Assets, presented as Advances and Prepayments on the Balance Sheet, include civil service employee pay advances, travel advances, and certain contract financing payments. The Army WCF reports payments made in advance of the receipt of goods and services as an asset on the Balance Sheet. The Army WCF recognizes an expense or asset when the related goods and services are received.

The Army WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army WCF may provide financing payments. Contract financing payments are defined in the *Federal Acquisition Regulations* (FAR), Part 32 - *Contract Financing*, as authorized disbursements to a contractor before acceptance of supplies or services by the government. Contract financing payments 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.

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. The Defense Federal Acquisition Regulation Supplement (DFARS) authorizes progress payments based on a percentage or a stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments, based on a percentage or stage of completion, are reported as Construction-in-Progress. For additional information, see Note 10, *Other Assets*.

1.T. Commitments and Contingencies

SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as 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. The Army WCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

The Army WCF discloses contingent losses when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The risk of loss and resultant contingent liabilities and disclosures for the Army WCF arises from pending or threatened litigation or claims and assessments due to events such as aircraft, vessel, and vehicle accidents; property or environmental damages; and contract disputes.

The Army WCF reports environmental contingencies separate from legal contingencies. The environmental contingencies are reported in Note 14, *Environmental and Disposal Liabilities*. The legal environmental cases are recorded as legal contingencies.

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

1.U. Federal Employee and Veteran Benefits

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 Army WCF 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 Army WCF. 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. Assumptions related to Federal Employee and Veteran Benefits Payable are detailed in Note 13, *Federal Employee and Veteran Benefits Payable*.

1.V. Environmental and Disposal Liabilities (E&DL)

E&DL are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Army's assets or operations. Consistent with SFFAS 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment*; SFFAS Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*; and SFFAS Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment*, the Army WCF recognizes an anticipated environmental disposal liability when the general property, plant, and equipment is placed into service and the liability is probable and measurable.

Interpretation of SFFAS 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6* (Interpretation 9), requires component entities that report general PP&E should also recognize the associated E&DL cleanup costs. For additional information, see Note 14, *Environmental and Disposal Liabilities*.

1.W. Other Liabilities

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of the end of the accounting period.

The Army WCF also reports liabilities for accrued leave for civilians when earned by the employee and is reduced as leave is taken. The balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. The Army WCF expenses sick leave when used and no liability is recognized because employees do not vest in these benefits.

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 Army WCF civilian employees; however, they are not required to participate. These programs include life, health, and long-term care insurance. 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 Army WCF 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.

For additional information, see Note 15, *Other Liabilities*.

1.X. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include transfers in and out of assets that were not reimbursed.

1.Y. Treaties for Use of Foreign Bases

Not Applicable

1.Z. Fiduciary Activities

Not Applicable

1.AA. Subsequent Events

Not Applicable

1.BB. Tax Exempt Status

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

Note 2. Nonentity Assets

As of September 30 (Amounts in thousands)	2023	2022
1. Total Intragovernmental Assets	$ -	$ -
2. Other Than Intragovernmental Assets		
A. Accounts Receivable	396	387
B. Total Other Than Intragovernmentall Assets	$ 396	$ 387
3. Total Nonentity Assets	$ 396	$ 387
4. Total Entity Assets	$ 25,646,891	$ 25,656,563
5. Total Assets	$ 25,647,287	$ 25,656,950

Information Related to Nonentity Assets

Assets are categorized as either entity or nonentity. Entity assets consist of resources that are available for use in the operations of the Army WCF. Nonentity assets are assets belonging to other entities for which the Army WCF maintains stewardship accountability and reporting responsibility. These assets are not available for the Army WCF's normal operations and are offset by liabilities to third parties to accurately reflect net position.

Nonentity Other Than Intergovernmental Accounts Receivable are interest receivables. Collections related to these receivables will be returned to the U.S. Treasury as miscellaneous receipts.

Note 3. Fund Balance with Treasury

Status of Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2023	2022
1. Unobligated Balance		
A. Available	$ 3,789,410	$ 3,156,298
2. Obligated Balance not yet Disbursed	$ 9,748,181	$ 7,509,754
3. Non-FBwT Budgetary Accounts		
A. Unfilled Customer Orders without Advance	(7,668,156)	(5,961,220)
B. Contract Authority	(2,211,977)	(1,464,521)
C. Receivables and Other	(184,960)	(179,187)
D. Total Non-FBwT Budgetary Accounts	(10,065,093)	(7,604,928)
4. Total FBwT	$ 3,472,498	$ 3,061,124

The Treasury records cash receipts and disbursements on the Army WCF's behalf. Funds are available only for the purposes for which the funds were appropriated. The Army WCF's FBwT consists of both revolving and appropriated funds.

Status of Fund Balance with Treasury Definitions

The Status of FBwT table displays 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 (Non-FBwT Budgetary Accounts). 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 that has not yet been obligated. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Non-FBwT Budgetary Accounts create budgetary resources and unobligated balances, but do not impact FBwT as there has been no receipt of funds. For the Army WCF, these Non-FBwT budgetary accounts include unfilled customer orders without an advance, reimbursements and other income earned-receivable, and contract authority.

Total FBwT does not include funds held as a result of allocation transfers received from other federal agencies. The Army WCF did not receive allocation transfers from other federal agencies for execution on their behalf or provide allocation transfers to other federal agencies.

The FBwT reported in the financial statements has been reconciled and adjusted to reflect the Army WCF's balance as reported by Treasury, with the exception of a $34.8 million transfer of spending authority which was approved by OMB and Treasury but is not yet reflected within the Treasury system. Prior to adjustment, the differences between FBwT in the Army WCF's general ledgers and FBwT reflected in the Treasury accounts were attributable to transactions that have not been posted to the individual detailed accounts in the Army WCF's general ledger as a result of timing differences or the inability to obtain complete 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 Army WCF's general ledger accounts.

Note 4. Cash and Other Monetary Assets

As of September 30 *(Amounts in thousands)*	2023	2022
1. Cash	$ 3,916	$ 10,007
2. Total Cash, Foreign Currency, & Other Monetary Assets	$ 3,916	$ 10,007

Cash includes unrestricted entity assets for collections on hand that were not deposited during the accounting period.

Note 5. Investments and Related Interest

Not Applicable

Note 6. Accounts Receivable, Net

As of September 30	2023		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 182,136	$ (6)	$ 182,130
2. Other Than Intragovernmental Receivables	$ 9,350	$ (2,198)	$ 7,152
3. Total Accounts Receivable	$ 191,486	$ (2,204)	$ 189,282

As of September 30	2022		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 176,704	$ (337)	$ 176,367
2. Other Than Intragovernmental Receivables	$ 10,447	$ (2,571)	$ 7,876
3. Total Accounts Receivable	$ 187,151	$ (2,908)	$ 184,243

Accounts receivable represent the Army WCF's claim for payment from other entities. Allowances for uncollectible accounts are based upon an analysis of the aging of accounts receivable, a debtor's ability to pay and payment history by aging category. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of *Treasury Financial Manual*, Volume I, Part 2, Chapter 4700. For FY 2023, the Army WCF reduced the Allowance for Estimated Uncollectibles and related bad debt expense by $704 thousand. During FY 2022, the Army WCF recognized $245 thousand in bad debt expense and increased the related Allowance for Estimated Uncollectibles.

Note 7. Loan Receivable, Net and Guarantee Liabilities

Not Applicable

Note 8. Inventory and Related Property, Net

As of September 30 *(Amounts in thousands)*	2023	2022
1. Inventory, Net	$ 19,684,882	$ 20,204,639
2. Operating Materiel & Supplies, Net	6,893	6,225
3. Total Inventory and Related Property, Net	$ 19,691,775	$ 20,210,864

Inventory, Net

As of September 30 *(Amounts in thousands)*	2023 Inventory, Gross Value	 Revaluation Allowance	 Inventory, Net	 Valuation Method
Inventory Categories				
A. Inventory Held for Sale	$ 11,489,845	$ -	$ 11,489,845	MAC
B. Inventory Held for Repair	6,078,218	-	6,078,218	MAC
C. Raw Materiel	1,563,340	-	1,563,340	MAC
D. Work In Process	553,479	-	553,479	*SP/AC
E. Excess, Obsolete, and Unserviceable Inventory	654,030	(654,030)	-	NRV
F. Total Inventory, Net	$ 20,338,912	$ (654,030)	$ 19,684,882	

As of September 30 *(Amounts in thousands)*	2022 Inventory, Gross Value	 Revaluation Allowance	 Inventory, Net	 Valuation Method
Inventory Categories				
A. Inventory Held for Sale	$ 12,326,554	$ -	$ 12,326,554	MAC
B. Inventory Held for Repair	5,974,343	-	5,974,343	MAC
C. Raw Materiel	1,354,011	-	1,354,011	MAC
D. Work In Process	549,731	-	549,731	*SP/AC
E. Excess, Obsolete, and Unserviceable Inventory	552,006	(552,006)	-	NRV
F. Total Inventory, Net	$ 20,756,645	$ (552,006)	$ 20,204,639	

Legend for Valuation Methods:
MAC = Moving Average Cost NRV = Net Realizable Value *SP/AC = Standard Price /Actual Cost
* WIP value reflects the standard price of the inventory item (less the estimated cost of repairs) and the repair costs incurred to date.

Operating Materiel and Supplies, Net

As of September 30 *(Amounts in thousands)*	2023 Inventory, Gross Value	 Revaluation Allowance	 Inventory, Net	 Valuation Method
1. OM&S Categories				
A. OM&S Held for Use	$ 6,893	$ -	$ 6,893	MAC
B. Total OM&S	$ 6,893	$ -	$ 6,893	

As of September 30 *(Amounts in thousands)*	2022 Inventory, Gross Value	 Revaluation Allowance	 Inventory, Net	 Valuation Method
1. OM&S Categories				
A. OM&S Held for Use	$ 6,225	$ -	$ 6,225	MAC
B. Total OM&S	$ 6,225	$ -	$ 6,225	

Legend for Valuation Methods: MAC: Moving Average Cost

Inventory

The Army WCF Inventory is categorized as follows:

Inventory Held for Sale includes both consumable, non-reparable as well as reparable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method which is an approximation of historical cost.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Army WCF values inventory held for repair using the direct method. SFFAS 3, *Accounting for Inventory and Related Property* and Interpretation 7, *Items Held for*

Manufacture, require that inventory held for repair and resale reflect all capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Excess, Obsolete, and Unserviceable (EOU) Inventory includes excess inventory that exceeds management requirements to meet the Army WCF mission; obsolete inventory, which is inventory that is no longer useful due to changes in technology, laws, customs, or operations; and unserviceable inventory, which is damaged, non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account. The Army WCF's FY 2023, $654 million carrying value of EOU is offset by a $654 million allowance balance to reflect no net realizable value.

Raw Material includes material to be used in the IO's mission. Raw material is valued using the moving average cost method which is an approximation of historical cost.

Work in Process includes (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost of repairs) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

There are restrictions on the use, sale, and disposition of inventory classified as war reserve, which includes petroleum products, subsistence items, spare parts, and medical materiel. These reserves are set aside for use during times of war.

Operating Materiel and Supplies

Operating Materiel and Supplies (OM&S) includes stocked items to be used for equipment and facilities maintenance at the IO sites. OM&S is valued using the moving average cost method. There are no restrictions on the use of OM&S.

Note 9. General Property, Plant and Equipment, Net

As of September 30	2023				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 3,865,923	$ (2,290,223)	$ 1,575,700
B. Software	S/L	5	1,755,060	(1,645,350)	109,710
C. General Equipment	S/L	5 or 10	1,769,681	(1,393,976)	375,705
D. Construction-in- Progress	N/A	N/A	137,168	N/A	137,168
E. Leasehold Improvements	S/L	10	668	(668)	-
F. Total General PP&E			$ 7,528,500	$ (5,330,217)	$ 2,198,283

As of September 30	2022				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 3,701,768	$ (2,214,498)	$ 1,487,270
B. Software	S/L	5	1,728,170	(1,610,922)	117,248
C. General Equipment	S/L	5 or 10	1,683,000	(1,367,885)	315,115
D. Construction-in- Progress	N/A	N/A	164,210	N/A	164,210
E. Leasehold Improvements	S/L	10	668	(635)	33
F. Total General PP&E			$ 7,277,816	$ (5,193,940)	$ 2,083,876

S/L – Straight Line NA – Not Applicable
*Service lives may be 15, 20, 35, 40, or 45 years

The Army WCF's General PP&E is comprised of buildings, structures, and facilities, software, general equipment, construction-in-progress, leasehold improvements, and other PP&E.

The DFARS authorizes progress payments based on a percentage or stage of completion only for construction of real property, alteration, or repair. Progress payments based on percentage or stage of completion are reported as construction-in-progress.

In accordance with SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, paragraph 40.f.i, the Army WCF excludes land and land rights from its reported property, plant, and equipment balances. Instead, the Army WCF discloses acreage information and expenses acquisitions. As of FY 2023, the Army WCF reports 202,699 acres of land and 88 acres of leased land, for a total of 202,787 acres in land and land rights. As of FY 2022, the Army WCF reported 203,220 acres of land and 88 acres of leased land, for a total of 203,308 acres in land and land rights. During FY 2023, there was a reduction of 521 acres of land due to ongoing data cleanup efforts.

See the Required Supplementary Information Section for more information.

Heritage Assets

For the Period Ended September 30 *(physical count)*	2023			
	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	4,966	4	(183)	4,787

For the Period Ended September 30 *(physical count)*	2022			
	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	4,961	22	(17)	4,966

Heritage Assets

The Army WCF has stewardship responsibilities for heritage assets that date not only from the military history of the land, but also from prior historic occupations. The Army WCF relies upon heritage assets such as historic buildings, for daily use in conducting mission activities. These buildings and structures are included on the balance sheet as multi-use heritage assets (capitalized and depreciated).

SFFAS 29, *Heritage Assets and Stewardship Land*, requires note disclosures for these types of assets. The Army policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Buildings and Structures

Buildings and Structures, including multi-use heritage assets, are listed on, or eligible for listing on, the *National Register of Historic Places* (NR) in accordance with Section 110, *National Historical Preservation Act*. The Army WCF reported 4,787 and 4,966 heritage buildings and structures as of FY 2023 and FY 2022, respectively.

Buildings and structures must be at least 50 years of age to be considered eligible for NR listing. During FY 2023, 4 assets were added after meeting the chronological threshold of 50 years old and meeting the NR eligibility requirements. Also, 181 assets were removed due to a change in historical status classification and 2 assets were removed due to disposal.

Stewardship Land

Stewardship land includes acquired land and land rights owned by the Army WCF intended to be held indefinitely. The Army WCF's stewardship land consists mainly of mission-essential land that was acquired for or in connection with items of General PP&E. As a result, stewardship land is not presented separately.

General PP&E deferred maintenance and repair totals, along with land and land rights acreage by predominant use are reported as Required Supplementary Information within the FY 2023 Army WCF Annual Financial Report.

General PP&E, Net – Summary of Activity

As of September 30 *(Amounts in thousands)*	2023	2022
1. General PP&E, Net beginning of year	$ 2,083,876	$ 2,160,971
2. Capitalized acquisitions	69,897	60,361
3. Dispositions	(611)	(1,030)
4. Transfers in/(out) without reimbursement	167,889	45,431
5. Revaluations (+/-)	47,900	155
6. Depreciation expense	(170,668)	(182,012)
7. General PP&E, Net end of year	$ 2,198,283	$ 2,083,876

Note 10. Other Assets

As of September 30 *(Amounts in thousands)*	2023	2022
1. Total Intragovernmental Other Assets	$ -	$ -
2. Other Than Intragovernmental Other Assets		
A. Outstanding Contract Financing Payments	$ 91,528	$ 106,830
B. Advances and Prepayments	5	6
C. Subtotal	91,533	106,836
D. Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	$ (91,533)	$ (106,836)
E. Net Other than Intragovernmental	-	-
3. Total Other Assets	$ -	$ -

Information Related to Other Assets

Outstanding Contract Financing Payments are a separate classification of advances and prepayments and reflect contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets.

Advances and prepayments are made by the Army WCF to cover certain periodic expenditures before those expenses are incurred, or for goods and services to provide for future benefits over a specified time period. Advances and prepayments are recorded when it is generally accepted industry practice to pay for items in advance of the service being provided and the prepayment is authorized.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30 *(Amounts in thousands)*	2023	2022
1. Intragovernmental Liabilities		
A. Other	$ 36,636	$ 33,726
B. Total Intragovernmental Liabilities	$ 36,636	$ 33,726
2. Other Than Intragovernmental Liabilities		
A. Federal Employee and Veteran Benefits Payable	$ 183,160	$ 177,504
B. Environmental and Disposal Liabilities	496,435	692,047
C. Other Liabilities	19,000	3,000
D. Total Other Than Intragovernmental Liabilities	$ 698,595	$ 872,551
3. Total Liabilities Not Covered by Budgetary Resources	$ 735,231	$ 906,277
4. Total Liabilities Covered by Budgetary Resources	$ 1,063,631	$ 689,293
5. Total Liabilities Not Requiring Budgetary Resources	$ 3,916	$ 10,007
6. Total Liabilities	$ 1,802,778	$ 1,605,577

Liabilities not covered by budgetary resources represent amounts owed without available budgetary authority to cover them. Liabilities that do not require the use of budgetary resources are covered by monetary assets that are not budgetary resources.

Intragovernmental Liabilities, Other, are unfunded FECA liabilities the Army WCF owes to the DOL for payments made by DOL to Army WCF beneficiaries totaling $36.6 million as of FY 2023. As of FY 2022, unfunded FECA liabilities were $33.7 million.

Federal Employee and Veteran Benefits Payable consists of the $183.1 million actuarial FECA benefits liability as of the end of FY 2023 and $177.5 million as of FY 2022. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details and disclosures.

E&DL consists of the liabilities associated with the Army WCF that include disposal liabilities for operational assets. E&DL are not covered by the Army WCF's current budgetary resources. See Note 14, *Environmental and Disposal Liabilities*, for additional details and disclosures.

Other than Intragovernmental Liabilities, Other reflects contingent liabilities for material claims with probable possibilities of loss of $19 million and $3 million for FY 2023 and FY 2022, respectively.

As of the end of FY 2023 and FY 2022, Liabilities Not Requiring Budgetary Resources reflect liabilities for undeposited collections.

Note 12. Federal Debt and Interest Payable

Not Applicable

Note 13. Federal Employee and Veteran Benefits Payable

As of September 30	2023		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 183,160	$	$ 183,160
B. Other	10,997	(10,997)	-
C. Total Other Benefits	$ 194,157	$ (10,997)	$ 183,160
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 194,157	$ (10,997)	$ 183,160
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 60,563	$ (23,927)	$ 36,636
4. Total Federal Employee and Veteran Benefits Payable	$ 254,720	$ (34,924)	$ 219,796

As of September 30	2022		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 177,504	$ -	$ 177,504
B. Other	9,633	(9,633)	-
C. Total Other Benefits	$ 187,137	$ (9,633)	$ 177,504
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 187,137	$ (9,633)	$ 177,504
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 57,213	$ (23,487)	$ 33,726
4. Total Federal Employee and Veteran Benefits Payable	$ 244,350	$ (33,120)	$ 211,230

Federal Employees' Compensation Act (FECA)

The 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.

The methodology for the FY 2023 billable projected liabilities included, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2022 and FY 2023 methodologies omitted pandemic-related adjustments to normalize the levels of payments. The FY 2023 methodology reduced the base factor for medical costs in the FECA Case Reserve Model.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPI-Ms) were applied to the calculation of projected future benefits.

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year. The methodologies for averaging the COLA rates used OMB-provided rates. The methodologies for averaging CPI-M rates used OMB provided rates and information obtained from the Bureau of Labor Statistics public release for CPI.

The actual rates for these factors for the charge back year (CBY) 2022 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPI-Ms used in the projection for various CBY were as follows:

CBY	COLA	CPI-M
2023	n/a	n/a
2024	4.04%	3.25%
2025	4.29%	3.21%
2026	4.38%	3.51%
2027	4.13%	3.87%
2028	3.13%	4.03%

[and thereafter]

The compensation COLAs and CPI-Ms used in the projections as of Q4, FY 2022 were as follows:

CBY	COLA	CPI-M
2022	n/a	n/a
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%

[and thereafter]

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2023 and FY 2022, respectively. Interest rate assumptions utilized for FY 2023 discounting were as follows:

Discount Rates
For wage benefits:
2.326% in year 1 and years thereafter;
For medical benefits:
2.112% in year 1 and years thereafter.

Interest rate assumptions utilized for FY 2022 discounting were as follows:

Discount Rates
For wage benefits:
2.119% in year 1 and years thereafter;
For medical benefits:
1.973% in year 1 and years thereafter.

To test the reliability of the model, comparisons were made between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. The model has been stable and has projected the actual payments by agency reasonably well.

The American Rescue Plan Act of 2021 (ARPA), P.L. 117-2, section 4016, "Eligibility for Workers' Compensation Benefits for Federal Employees Diagnosed with COVID-19," mandated that the FECA Special Benefits Fund assume an unreimbursed liability (i.e., a liability that is not chargeable to the agencies) for approved claims of certain covered employees for injuries proximately caused by exposure to the novel coronavirus that causes COVID-19 (or another coronavirus declared to be a pandemic by public health authorities) while performing official duties during the covered exposure period. Pursuant to the ARPA, COVID-19 claims filed or adjudicated under the ARPA standards after March 11, 2021 and where COVID-19 is diagnosed on or before January 27, 2023 are included in the non-billable liabilities; accordingly, the methodology properly omits these future payments.

Federal Health and Other Benefits

OPM, as the administrating agency for the Army WCF's life and other insurance programs covering civilian employees, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. The Army WCF 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 employer contributions are submitted to OPM.

Other Federal Employment Benefits

Other Benefits, Other consists of Employer Contributions and Payroll Taxes Payable, other than health, life and retirement benefits.

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

The Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet amount is consistent with the Intragovernmental Other Liabilities, reported on the Note 13, *Federal Employee and Veteran Benefits Current Liability* line in Note 15. The reference is included here to demonstrate the summary balances align with the Army WCF's balance sheet. These balances include employer contributions and payroll taxes payable for health, life and retirement benefits and required FECA Reimbursements to the DOL. The liabilities for the FECA reimbursement to the DOL represents balances due under the *Federal Employee Compensation Act*. This amount includes balances due in both FY 2024 and FY 2025 for both incurred and estimated costs.

Note 14. Environmental and Disposal Liabilities

As of September 30 *(Amounts in thousands)*	2023	2022
1. Environmental Liabilities – Other Than Intragovernmental		
A .Other Accrued Environmental Liabilities – Non-BRAC		
1. Environmental Closure Requirements (Non-Asbestos)	$ 109,726	$ 335,974
2. Asbestos	386,637	356,073
3. Non-Military Equipment	21	-
B. Environmental Disposal for Military Equipment / Weapons Programs		
1. Nuclear Powered Military Equipment / Spent Nuclear Fuel	51	-
2. Total Environmental and Disposal Liabilities	$ 496,435	$ 692,047

Types of Environmental and Disposal Liabilities (E&DL) Identified

The Army WCF E&DL consists of only asset-driven liabilities (closure and disposal) for General PP&E. Event-driven liabilities caused by the release of contamination to the environment that require future cleanup are covered under the Army General Fund. Asset-driven liabilities are the environmental closure and disposal costs incurred at the end of the asset's use. The Army WCF E&DL is reported in the following categories:

Environmental Closure Requirements
Asbestos
Non-Military Equipment
Nuclear Powered Military Equipment / Spent Nuclear Fuel

The Army WCF E&DL addresses asset-driven disposal liabilities for operational assets such as underground storage tanks (USTs), aboveground storage tanks (ASTs), above (ABV) and underground (UNDR) piping associated with storage tanks, steam piping, landfills, Resource Conservation and Recovery Act (RCRA) Hazardous Waste Facilities, buildings (asbestos, lead-based paint, other environmentally regulated materials), Non-Military Equipment, and Nuclear Regulatory Commission (NRC) Licensed commodities.

For each category, the E&DL reflects the estimated future work required to address legal and environmental disposal requirements.

Applicable Laws, Guidance and Regulations
This section provides the guidance, policies, laws, and regulations that govern the development and reporting of the environmental and disposal liabilities.

Applicable laws and regulations addressing cleanup requirements include:

- *Toxic Substances Control Act* (TSCA)
- *Low-Level Radioactive Waste Policy Act* (LLRWPA)
- *Resource Conservation and Recovery Act* (RCRA)
- *Asbestos Hazard Emergency Response Act* (AHERA)
- *Appendix A, Title 41 Code of Federal Regulations* (CFR)*, Part 102-40, November 2022*
- *Appendix B, Title 41 CFR, Part 102-40 February 10, 2015*
- U.S. Department of Energy, *Nuclear Regulatory Commission Regulation* (NUREG) – *(*e.g., NUREG 1757 – *Consolidated Decommissioning Guidance* and NUREG CR6477 – *Revised Analyses of Decommissioning Reference Non-Fuel-Cycle Facilities*)

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods
The General Fund Enterprise Business System (GFEBS) is the accountable property system of record (APSR) for assets other than NRC licenses and, Non-Military Equipment. This is supplemented by the Spill Prevention, Control and Countermeasure (SPCC) and Integrated Contingency Plan (ICP), RCRA permits, NRC licenses, and other regulatory documents. This information is used to develop the E&DL estimates for Environmental Closure Requirements, Asbestos, and Nuclear Powered Military Equipment. The Defense Property Accountability System (DPAS) is the APSR for Non-Military Equipment.

Asset-driven liabilities include building/facility closures and disposal costs associated with building abatement and/or the removal of Asbestos Containing Materials (ACM) and Other Regulated Materials (ORM). For asbestos, the costs include a cost for pre-demolition surveys and a cost for potential abatement. ORM covers all other environmentally regulated materials that would need to be removed and properly disposed as part of the building closure and the cost for the environmental survey. The historical costs to support the estimating model is taken from various sites located within the United States and updated annually. The costs for the historical contracted demolitions are leveraged to establish a Unit Cost Factor (UCF) for Asbestos and ORM. The UCF is applied to asset inventory data to develop closure liabilities. Liabilities for individual building demolition will vary depending on location, so to account for such environmental related building closure, liabilities are reported in aggregate and adjusted for area cost variations. On July 12, 1989, the Environmental Protection Agency (EPA) issued a final rule banning most asbestos-containing products.

The Army uses an excel-based cost estimation model to estimate the removal and disposal of asbestos wrappings on steam pipelines. The model includes separate cost functions for the abatement and closure processes related to steam piping closure. Cost estimates for steam piping closure are developed using asbestos abatement methodologies and length of piping in the estimation model.

RCRA Hazardous Waste facilities are associated with a Treatment, Storage, or Disposal Facility (TSDF) of hazardous materials/waste. These facilities are part of the Army's industrial base where certain processes require treatment, storage, management, and/or disposal of hazardous materials/waste in a manner that prevents discharge to the environment. The Army utilizes the excel-based cost estimating templates to determine the environmental liabilities for these assets at the time of closure.

The Army also uses excel-based cost estimating templates for aboveground and underground storage tanks and piping. Cost estimates for storage tank closure were developed considering the size of the tank. Cost estimates are developed for tank sizes within the tank inventory. The length of the piping is used to calculate the piping estimate. The costs estimates are adjusted using area cost factors when reporting the tank or piping E&DL.

The Army uses the excel-based cost estimate templates for landfills. Permitted landfills are estimated based on the RCRA permit and regulatory requirements. The future closure costs for operating landfills considers the type of landfill (e.g., hazardous waste, sanitary/municipal), construction and demolition debris (C&D), acreage, and location. The reported environmental liability also includes post-closure requirements.

Army NRC license holders are regulated under the *Low-Level Radioactive Waste (LLRW) Policy Act*, and LLRW disposal is conducted in accordance with U.S. Department of Energy regulations. Engineering estimates, leveraging the regulatory requirements, are used to develop the NRC license estimates. The Army Safety Office (ASO) tracks the NRC licenses for radioactive materials.

The Army WCF estimates and reports an E&DL associated with Non-Military Equipment when future disposal activities involve non-routine removal of hazardous waste and/or an environmental response that is explicitly required (by permit or other policy or law). The Army WCF identified the population of assets within DPAS that would require hazardous waste removal prior to disposition of the asset, where the hazardous waste is not routinely removed and disposed of during equipment operation. The Army WCF developed cost estimates using existing contracts and/or workorder cost estimates for non-routine disposal of hazardous waste for similar pieces of equipment. For FY 2023, the Army WCF's estimated Non-Military Equipment E&DL is $20,615. The Army WCF did not report an E&DL for Non-Military Equipment assets in FY 2022.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General PP&E
Unrecognized cleanup costs are based on the remaining useful life allocated to future periods where the PP&E is in service. These costs, which are separated only for tanks, piping, buildings, and Non-Military Equipment, are not included in the current liability. The unrecognized costs amounted to $4.6 million as of FY 2023 compared to the $4.2 million reported as of FY 2022. The recognized amounts are included in the respective line items based on useful life of the asset, as appropriate.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations
The Army WCF estimates are updated annually to reflect changes in previously unknown information, re-estimation based on different assumptions, price growth (inflation), increase in labor rates and materials, and lessons learned. Environmental liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advancements in technology.

All environmental liabilities as of FY 2023 and FY 2022 are stated in 2023 and 2022 dollars, respectively. Future inflation could cause actual costs to be higher than the recorded liability. The Army WCF estimation methodologies were substantially revised in FY 2023.

Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities
Certain asset driven E&DL estimates for the Army are dependent on the APSR data and require certain professional judgments and assumptions that are reasonable based upon information available to the Army at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated.

The Army WCF reports asbestos survey costs at the time of the building renovation or demolition. However, due to estimation uncertainty in identification of costs between friable and non-friable asbestos, the allocation of these costs are not reasonably estimable. Friable asbestos abatement estimates are based on historical costs of asbestos abatement during facility demolition.

Note 15. Other Liabilities

As of September 30 *(Amounts in thousands)*	2023 Current Liability	 Noncurrent Liability	 Total
1. Intragovernmental			
A. Liabilities for Nonentity Assets	$ 396	$ -	$ 396
B. Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	39,316	21,247	60,563
C. Total Intragovernmental	$ 39,712	$ 21,247	$ 60,959
2. Other Than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 211,651	$ -	$ 211,651
B. Liability for Non-fiduciary Deposit Funds and Undeposited Collections	3,916	-	3,916
C. Contract Holdbacks	-	-	-
D. Contingent Liabilities	-	19,000	19,000
E. Total Other than Intragovernmental	$ 215,567	$ 19,000	$ 234,567
3. Total Other Liabilities	$ 255,279	$ 40,247	$ 295,526

As of September 30 *(Amounts in thousands)*	2022 Current Liability	 Noncurrent Liability	 Total
1. Intragovernmental			
A. Liabilities for Nonentity Assets	$ 387	$ -	$ 387
B. Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	38,229	18,984	57,213
C. Total Intragovernmental	$ 38,616	$ 18,984	$ 57,600
2. Other Than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 211,266	$ -	$ 211,266
B. Liability for Non-fiduciary Deposit Funds and Undeposited Collections	10,007	-	10,007
C. Contract Holdbacks	55	-	55
D. Contingent Liabilities	-	3,000	3,000
E. Total Other than Intragovernmental	$ 221,328	$ 3,000	$ 224,328
3. Total Other Liabilities	$ 259,944	$ 21,984	$ 281,928

Intragovernmental

Liabilities from Nonentity Assets

Intragovernmental Liabilities from Nonentity Assets represent offsetting liabilities for nonentity assets for which the Army WCF is acting on behalf of another Federal entity. Army WCF collects interest payments, penalties, and administrative fees from both individuals and organizations that are remitted to U.S. Treasury.

Federal Employee and Veteran Benefits Payable

See Note 13, *Federal Employee and Veteran Benefits Payable*, for disclosures regarding amounts reported on line 1.B.

Other Than Intragovernmental

Accrued Funded Payroll and Leave

Accrued funded payroll and leave represents the estimated amount of liability for salaries, wages, and funded annual leave that has been earned but not yet paid.

Liability for Non-fiduciary Deposit Funds and Undeposited Collections

Liability for Non-fiduciary Deposit Funds and Undeposited Collections represent liabilities for receipts held in suspense temporarily.

Contract Holdbacks

Contract holdbacks consist of amounts withheld from payments to contractors to assure compliance with contract terms.

Contingent Liabilities

Contingent liabilities include the accrual of various legal actions for which the Army Office of General Counsel considers an adverse decision probable and the amount of loss measurable. See Note 17, *Commitments and Contingencies*.

Advances from Others and Deferred Revenue (reported separately from Other Liabilities on the Balance Sheet):

As of September 30 *(Amounts in thousands)*	2023	2022
A. Intragovernmental	$ 738	$ 738
B. Other than Intragovernmental	110,210	70,868
Total Advances from Others and Deferred Revenue	$ 110,948	$ 71,606

Advances from Others and Deferred Revenue

Advances from Others represent liabilities for collections received from the customer to cover Army WCF's future expenses incurred or assets acquired related to fulfillment and delivery of the respective goods or services.

Note 16. Leases

Operating Leases

As of September 30	2023			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2024	$ -	$ -	$ 18,956	$ 18,956
2025	-	-	19,522	19,522
2026	-	-	19,583	19,583
2027	-	-	19,850	19,850
2028	-	-	20,197	20,197
After 5 years	-	-	104,718	104,718
Total Intragovernmental Future Lease Payments Due	$ -	$ -	$ 202,826	$ 202,826
2. Other Than Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2024	$ -	$ -	$ -	$ -
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
After 5 years	-	-	-	-
Total Other Than Intragovernmental Future Lease Payments Due	$ -	$ -	$ -	$ -
3. Total Future Lease Payments	$	$	$ 202,826	$ 202,826

As of September 30 *(Amounts in* thousands)	2022 Land and Buildings	 Equipment	 Other	 Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2023	$ -	$ -	$ 15,804	$ 15,804
2024	-	-	16,231	16,231
2025	-	-	16,302	16,302
2026	-	-	16,373	16,373
2027	-	-	16,459	16,459
After 5 years	-	-	82,747	82,747
Total Intragovernmental Future Lease Payments Due	$ -	$ -	$ 163,916	$ 163,916
2. Other Than Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2023	$ 8	$ -	$ -	$ 8
2024	8	-	-	8
2025	9	-	-	9
2026	9	-	-	9
2027	10	-	-	10
After 5 years	86	-	-	86
Total Other Than Intragovernmental Future Lease Payments Due	$ 130	$ -	$ -	$ 130
3. Total Future Lease Payments	$ 130	$ -	$ 163,916	$ 164,046

The future non-cancelable operating lease amounts presented for Army WCF include estimates for GSA motor vehicles leases. The GSA motor vehicle future lease payments are based upon FY 2023 and FY 2022 annualized activity levels for motor vehicles obtained for indefinite assignment under the GSA Interagency Fleet Management System (IFMS) program (Federal Property Management Regulation Section 101-39.204). In FY 2022, the Army WCF reported a land lease of 2.13 acres of land to construct, operate, and maintain railroad track/facilities. In FY 2023, the Army WCF changed the classification of the land lease and is excluding from the disclosure.

Note 17. Commitments and Contingencies

Nature of Contingency

The Army WCF 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; and their ultimate disposition is unknown. 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 Army WCF 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.

As of FY 2023, Army WCF reports a $16 million contingent liability for a legal claim from a contractor with a range of loss between $16 million and $19 million. In addition, a $3 million contingent liability was accrued for a *Fair Labor Standards Act* grievance with a probable possibility of loss.

In addition, the Army WCF has an estimated range of loss between $1.7 million and $13.3 million related to overtime and hazard duty/environmental differential pay grievances where the possibility of loss is considered reasonably possible.

As of FY 2022, Army WCF accrued a $3 million contingent liability for a material claim related to *Fair Labor Standards Act* grievances with a probable possibility of loss. In addition, the Army WCF had an estimated range of loss between $457 thousand and $13.7 million related to overtime grievances where the possibility of loss is considered reasonably possible.

Summary of Legal Contingent Liabilities			
As of September 30, 2023	Estimated Range of Loss		
(Amounts in thousands)	**Accrued Liabilities**	**Lower End**	**Upper End**
Probable	$19,000	$19,000	$22,000
Reasonably Possible	-	$1,700	$13,250

Summary of Legal Contingent Liabilities			
As of September 30, 2022	Estimated Range of Loss		
(Amounts in thousands)	**Accrued Liabilities**	**Lower End**	**Upper End**
Probable	$3,000	$3,000	$3,000
Reasonably Possible	-	$457	$13,655

As of FY 2023 and FY 2022, other legal claims existed for which the estimated loss amount or the range of loss could not be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect the Army WCF's financial position or results of operation.

Note 18. Funds from Dedicated Collections

Not Applicable

Note 19. General Disclosures Related to the Statements of Net Cost

For the Period Ended September 30	2023			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2023 Consolidated
Operations, Readiness & Support				
1. Program Costs				
A. Gross Costs	$ 4,817,247	$ 11,752,797	$ (1,636,537)	$ 14,933,507
B. (Less: Earned Revenue)	(4,329,723)	(12,098,562)	1,627,152	(14,801,133)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes	487,524	(345,765)	(9,385)	132,374
D. Net Program Costs Including Assumption Changes	487,524	(345,765)	(9,385)	132,374
2. Net Cost of Operations	$ 487,524	$ (345,765)	$ (9,385)	$ 132,374

For the Period Ended September 30	2022			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2022 Consolidated
Operations, Readiness & Support				
1. Program Costs				
A. Gross Costs	$ 4,851,205	$ 10,997,349	$ (1,411,429)	$ 14,437,125
B. (Less: Earned Revenue)	(3,957,636)	(12,626,694)	1,397,955	(15,186,375)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes	893,569	(1,629,345)	(13,474)	(749,250)
D. Net Program Costs Including Assumption Changes	893,569	(1,629,345)	(13,474)	(749,250)
2. Net Cost of Operations	$ 893,569	$ (1,629,345)	$ (13,474)	$ (749,250)

Information Related to the Statements of Net Cost

The Statements of Net Cost (SNC) represents the net cost of programs and organizations of the Army WCF that are supported by spending authority, appropriations, or other resources. 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 or organization administered by a responsible reporting entity. The Army WCF's current process and systems capture costs of its IO and SMA activities. Earned Revenue during FY 2023 was $14.8 billion and is presented net of $1.5 billion in material returns. Earned Revenue during FY 2022 was $15.2 billion and is presented net of $1.3 billion in material returns.

Note 20. Disclosures Related to the Statement of Changes in Net Position

Information Related to the Statement of Changes in Net Position

Cumulative Results of Operations, Other reflects the offset of interest revenue reported on Cumulative Results of Operations Non-Exchange Revenue that will be remitted to Treasury upon collection.

Note 21. Disclosures Related to the Statement of Budgetary Resources

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance brought forward, October 1 represents the total of Recoveries of prior year unpaid obligations and Other changes in unobligated balance, together impacting the Obligated balance, end of the prior year and brought forward, October 1, as reported.

During FY 2022, as a result of ongoing audit readiness initiatives, the Army WCF removed prior year unsupported budgetary balances from its Statement of Budgetary Resources. This entry resulted in a $1.1 billion reduction to both the "Unobligated Balance from Prior Year Budget Authority, Net" and "Apportioned, Unexpired Accounts" lines of the Statement of Budgetary Resources (SBR) in FY 2022.

Terms of Borrowing Authority Used

The Army WCF has no borrowing authority.

Available Borrowing / Contract Authority, End of Period

The Army WCF has no borrowing or contract authority as of the end of FY 2023.

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30 *(Amounts in thousands)*	2023	2022
1. Intragovernmental:		
A. Unpaid	$ 2,299,292	$ 3,532,437
B. Prepaid/Advanced	-	-
C. Total Intragovernmental	$ 2,299,292	$ 3,532,437
2. Other Than Intragovernmental:		
A. Unpaid	$ 6,453,293	$ 3,315,573
B. Prepaid/Advanced	91,533	106,836
C. Total Other Than Intragovernmental	$ 6,544,826	$ 3,422,409
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,844,118	$ 6,954,846

Intra-entity Transactions

The Army WCF SBR includes intra-entity transactions because the statements are presented as combined.

Legal Arrangements Affecting the Use of Unobligated Balances

The Army WCF has no legal arrangements that affect the use of unobligated balances of budgetary authority.

Explanation of Differences between the SBR and the Budget of the U.S. Government

There are no material differences between the prior year amounts reported on the Army WCF SBR and actual FY 2022 amounts on the Budget of the U.S. Government. The Budget with the actual amounts for FY 2023 will be available at a later date on the OMB website.

Contributed Capital

The Army WCF does not have contributed capital.

Note 22. Disclosures Related To Incidental Custodial Collections

Not Applicable

Note 23. Fiduciary Activities

Not Applicable

Note 24. Reconciliation of Net Cost to Net Budgetary Outlays

The Reconciliation of Net Cost to Net Budgetary Outlays demonstrates the relationship between the Army WCF's Net Cost of Operations, reported on an accrual basis, and Net Outlays, reported on a budgetary basis. While budgetary and financial 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 Army WCF'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 use and receipt of cash by the Army WCF. Outlays are payments to liquidate an obligation.

Miscellaneous Reconciling Items, Other include the net impact of intragovernmental transfers and Treasury backdated transactions. These line items are required to adjust the change in net assets for items that do not result in a current year budgetary outlay or are not reflected in the Statement of Net Cost.

As of September 30, 2023 *(Amounts in thousands)*	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	$ (7,940,345)	$ 8,072,719	$ 132,374
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General Property, Plant, and Equipment, Net	$ -	$ 114,407	$ 114,407
3. Change in Inventory and Related Property, Net	-	(519,089)	(519,089)
4. Increase/(Decrease) in Assets:			
A. Accounts Receivable, Net	5,763	(724)	5,039
B. Other Assets	-	(21,394)	(21,394)
5. (Increase)/Decrease in Liabilities:			
A. Accounts Payable	(68,785)	(264,068)	(332,853)
B. Environmental and Disposal Liabilities	-	195,612	195,612
C. Federal Employee and Veteran Benefits Payable	-	(7,020)	(7,020)
D. Other Liabilities	(3,359)	(49,581)	(52,940)
6. Financing Sources:			
A. Imputed Cost	(194,200)	-	(194,200)
7. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (260,581)	$ (551,857)	$ (812,438)
Components of Net Budgetary Outlays Not Part of Net Cost			
8. Total Components of Net Budgetary Outlays Not Part of Net Cost	$ -	$ -	$ -
Miscellaneous Reconciling Items			
9. Transfers (in)/out Without Reimbursements	$ (155,656)	$ -	$ (155,656)
10. Other	-	(6,904)	(6,904)
11. Total Other Reconciling Items	$ (155,656)	$ (6,904)	$ (162,560)
12. Total Net Outlays	$ (8,356,582)	$ 7,513,958	$ (842,624)
13. Agency Outlays, Net (Statement of Budgetary Resources)			$ (842,624)
14. Unreconciled Difference			$ -

As of September 30, 2022

(Amounts in thousands)	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	$ (7,598,771)	$ 6,849,521	$ (749,250)
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General Property, Plant, and Equipment, Net	$ -	$ (77,096)	$ (77,096)
3. Change in Inventory and Related Property, Net	-	434,226	434,226
4. Increase/(Decrease) in Assets:			
A. Accounts Receivable, Net	(4,361)	2,413	(1,948)
B. Other Assets	-	(36,975)	(36,975)
5. (Increase)/Decrease in Liabilities:			
A. Accounts Payable	39,473	(90,103)	(50,630)
B. Environmental and Disposal Liabilities	-	(203,531)	(203,531)
C. Federal Employee and Veteran Benefits Payable	-	(8,088)	(8,088)
D. Other Liabilities	(3,838)	4,784	946
6. Financing Sources:			
A. Imputed Cost	(153,204)	-	(153,204)
7. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (121,930)	$ 25,630	$ (96,300)
Components of Net Budgetary Outlays Not Part of Net Cost			
8. Total Components of Net Budgetary Outlays Not Part of Net Cost	$ -	$ -	$ -
Miscellaneous Reconciling Items		$	$
9. Transfers (in)/out without reimbursements	$ 57,790	-	57,790
10. Other	-	-	-
11. Total Other Reconciling Items	$ 57,790	$ -	$ 57,790
12. Total Net Outlays	$ (7,662,911)	$ 6,875,151	$ (787,760)
13. Agency Outlays, Net (Statement of Budgetary Resources)			$ (787,760)
14. Unreconciled Difference			$ -

Note 25. Public-Private Partnerships

Public-Private Partnerships are defined as “risk-sharing arrangements or transactions lasting more than five years between public and private sector entities.” SFFAS 49, *Public-Private Partnerships*, establishes disclosure requirements. The Army WCF has assessed its agreements and has not identified any Public-Private Partnerships to date.

Note 26. Disclosure Entities and Related Parties

Not Applicable

Note 27. Security Assistance Accounts

Not Applicable

Note 28. Restatements

Not Applicable

Note 29. COVID-19 Activity

Not Applicable

Note 30. Subsequent Events

The Army WCF does not have subsequent events as of November 8, 2023.

Note 31. Reclassification of Financial Statement Line Items for Financial Report Compilation Process

Not Applicable

REQUIRED SUPPLEMENTARY INFORMATION – WORKING CAPITAL FUND

Department of Defense — Army Working Capital Fund

SCHEDULE OF DISAGGREGATED BUDGETARY RESOURCES

For the Periods Ended September 30, 2023 and 2022

Amounts in thousands	Industrial Operations	Supply Management Activities	Component	2023 Combined	2022 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 3,015,089	$ (149,565)	$ -	$ 2,865,524	$ 3,383,852
Appropriations (discretionary and mandatory)	143,448	1,489	-	144,937	499,711
Contract Authority (discretionary and mandatory)	134,437	8,672,979	-	8,807,416	6,561,600
Spending Authority from offsetting collections (discretionary and mandatory)	5,327,459	569,282	-	5,896,741	3,789,489
Total Budgetary Resources	$ 8,620,433	$ 9,094,185	$ -	$ 17,714,618	$ 14,234,652
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 4,922,113	$ 9,003,095	$ -	$ 13,925,208	$ 11,078,355
Unobligated balance, end of year:					
Apportioned, unexpired accounts	3,698,320	91,090	-	3,789,410	3,156,297
Unexpired unobligated balance, end of year	3,698,320	91,090	-	3,789,410	3,156,297
Unobligated balance, end of year (total)	3,698,320	91,090	-	3,789,410	3,156,297
Total Budgetary Resources	$ 8,620,433	$ 9,094,185	$ -	$ 17,714,618	$ 14,234,652
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	341,269	(1,185,383)	1,490	(842,624)	(787,760)
Agency Outlays, net (discretionary and mandatory)	$ 341,269	$ (1,185,383)	$ 1,490	$ (842,624)	$ (787,760)

DEFERRED MAINTENANCE

Real Property Deferred Maintenance and Repair

For the Years Ended September 30, 2023 and 2022
(In Millions)

	Fiscal Year 2023			Fiscal Year 2022		
Property Type	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/ Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/ Plant Replacement Value)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$26,570	$4,601	17%	$16,055	$2,678	17%
Category 2: Buildings Structures, and Linear Structures (Heritage Assets)	$11,429	$2,579	23%	$8,965	$1,900	21%
Inactive Real Property						
Category 3: Building, Structures, and Linear Structures (Excess Facilities or Planned for Replacement	$1,317	$295	22%	$1,025	$213	21%

In accordance with DoD Financial Management Regulation 7000 14-R (September 2023), Volume 6B, Chapter 12, the Army's deferred maintenance estimates for FY 2023 and FY 2022 include all facilities in which DoD has ownership interest under the control of the Army WCF and are not funded for Sustainment by another service, Non-Appropriated Funds, commissary surcharges or non-DoD sources. Assets that are fully disposed, damaged beyond repair, obsolete or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings/Facility Condition Index reported in the Installation Status Report (ISR) during fourth quarter of FY 2023 and FY 2022 that are obtained by inspection or application of business rules described below. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x plant replacement value (PRV)

Q-ratings are determined by the Installation Status Report (ISR) for the majority of facilities, and by business rule for the remaining facilities. During ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: 95 if the facility is no more than 5 years old; 85 if the facility is permanent or semi-permanent construction and between 5 and 15 years old; 70 if the facility is permanent or semi-permanent construction and more than 15 years old; 59 if the facility is temporary construction and more than 5 years old; 95 if the asset is a lease or privatized. For assets with a Non-Functional operational status, assigned Q-ratings are 100 if the asset is under full renovation, 59 if the asset is undergoing environmental repair, and 40 if the facility in not functional due to storm or other type of damage. An acceptable operating condition represents facilities with no deferred maintenance. Facilities of all ownership interests are included in the data set. Relocatable buildings are considered equipment and excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets Facilities that are Permanent or Semi-Permanent, with an Operational Status of "Active" or "Semi-Active" are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
  2. The asset is designated as a Heritage Asset
  3. A Disposal Completion Date is associated with the Asset
  4. A Disposal Reason Code is associated with the asset

- Category 2: Buildings, Structures, and Utilities that are Heritage Assets Facilities that are Permanent or Semi-Permanent, with an Operational Status of "Active" or "Semi-Active" and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
  2. A Disposal Completion Date is associated with the asset
  3. A Disposal Reason Code is associated with the asset
- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets Facilities with an Operational Status of "Caretaker", "Excess", "Non-Functional", "Outgrant", "Surplus" or "Closed" plus "Active" and "Semi-active" with a Disposal Reason Code plus "Active" and "Semi-active" with a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

Equipment Deferred Maintenance and Repair

The Army WCF's 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. Generally, maintenance for equipment is scheduled on a monthly, quarterly, semi-annual, or annual basis. For commercial equipment, the manufacturer's guidance is referenced in assessing the frequency of maintenance. In addition to regular equipment maintenance, some assets require maintenance and repair throughout the year that may not be scheduled. The Army WCF prioritizes maintenance and repair of these assets based on both operational needs and the availability of funds. The Army WCF developed a methodology to identify deferred maintenance and repair requirements for both its capital and non-capital equipment using condition assessment surveys and life cycle cost forecasts. As of the end of Fiscal Year 2023, the Army WCF reports $4.3 million in deferred maintenance requirements associated with its equipment.

LAND AND LAND RIGHTS

In accordance with the Statement of Federal Financial Accounting Standards 59, *Accounting and Reporting of Government Land*, the Army WCF's estimated acreage of GPP&E land and stewardship land is presented in three predominant use subcategories: Conservation and Preservation Land, Operational Land, and Commercial Use Land.

Department of Defense — Army Working Capital Fund

Estimated Acreage by Predominant Use – GPP&E Land and Permanent Land Rights

For the Year Ended September 30, 2023

	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Held for Use				
September 30, 2021	-	-	207,457	207,457
September 30, 2022	-	-	203,308	203,308
September 30, 2023	-	-	202,787	202,787
Held for Disposal or Exchange				
September 30, 2021	-	-	-	-
September 30, 2022	-	-	-	-
September 30, 2023	-	-	-	-

The acquisition and use of land is critical to the Army's mission to deploy, fight and win our nation's wars by providing ready, prompt and sustained land dominance by Army forces across the full spectrum of conflict as part of the joint force. This mission includes land, air, and marine operations to support the National Military Strategy. The Army's land provides an area for facilities, training ranges, housing, and transportation, including airfields. These ranges, transportation modes, and facilities are used to recruit, train, equip, and deploy the military, civilians, and contractors from other tenant organizations.

Army Land Policies

The Secretary of the Army (SecArmy) has real estate procurement and management authority under U.S. statutes. 10 USC § 2663(h), "Land Acquisition Authorities", establishes monetary authority levels for purchasing land. Funding for land purchases is authorized by Congress under the Military Construction (MILCON) appropriations. The Army operates under the Department of Defense Directive (DoDD) 4165.06, *Real Property and Army Regulation* (AR) 405-10, *Acquisition of Real Property and Interests Therein*, which establishes policy for land acquisition.

The disposal of land is governed by Department of Defense Instruction (DoDI) 4165.72, *Real Property Disposal*, and AR 405-90, *Disposal of Real Property*. The Army WCF may nominate excess land for disposal and submit a Report of Availability through the Army for approval and Congressional notification. Army-controlled real property in the U.S. that is excess to DoD requirements, and above dollar delegations outlined in Part 102–75, Subchapter C, Title 41, *Code of Federal Regulations* (41 CFR 102–75) *Federal Management Regulation* (FMR), will be reported to the GSA for disposal. The disposal process includes a check of requirements for the land by other DoD agencies and other Federal Agencies. If there is no government need, the GSA may sell it for commercial use or to a local government.

SECTION 3: Other Information

The Other Information section provides other financial and non-financial information that are required by various laws and regulations to be included in the Annual Financial Report.

Participating in a static line parachute event and competition. (U.S. Army Deirdre Salvas)

An Army paratrooper uses a Dronebuster 3B to disrupt enemy drones as part of a defense exercise. (U.S. Army photo by Army Sgt. Mariah Y. Gonzalez)

PAYMENT INTEGRITY INFORMATION ACT REPORTING

In accordance with the Payment Integrity Information Act of 2019 (P. L. 116-117, 31 U.S.C § 3352 and § 3357), DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD Agency Financial Report. For detailed reporting on DoD payment integrity, refer to the "Other Information" section of the consolidated DoD AFR.

U.S. ARMY

PHOTO CAPTIONS

1. A soldier assigned traverses through smoke during an attack from opposing forces during an exercise. (U.S. Army photo by Army Sgt. Brayton Daniel
2. Soldiers conduct fast rope insertion training from a UH-60M Black Hawk helicopter. (U.S. Army photo by Army Capt. Riley Botz)
3. Soldiers tackle Victory Tower at Fort Jackson, S.C., as part of a team building event, April 2, 2023. (U.S. Army photo by Army Sgt. 1st Class Crystal Harlow)
4. Completing an 11-mile ruck with a 40-pound weight in a pack during a competition. (Photo by Air National Guard Master Sgt. Becky Vanshur)
5. A signal support specialist simulates a cyber-attack during an annual training. (U.S. Army photo by Spc. Elizabeth Buck)
6. A young girl hugs a soldier during a deployment ceremony (U.S. Army photo courtesy of Delaware National Guard)
7. Informations review. (U.S. Army photo by Joshua Voda)
8. Twins participate in basic combat. (Photo courtesy of the U.S. Army)
9. Participants in the U.S. Army Reserve Best Squad. (Photo courtesy of the U.S. Army)
10. Discussing the fastest route to grid coordinates. (U.S. Army photo by Army Spc. Duke Edwards)
11. Soldiers conduct rail operations. (U.S. Army photo by Army Spc. Jessica Heilman)
12. Army paratroopers engage in combat training as part of a demonstration. (U.S. Army photo by Army Sgt. Christian Dela Cruz)

We are interested in your feedback regarding the content of this report. Feel free to e-mail your comments to AAFS@hqda.army.mil or write to:

DEPARTMENT OF THE ARMY
Office of the Deputy Assistant Secretary of the Army – Financial Management and Comptroller
Office of the Financial Reporting Directorate
Room 3A320 | 109 Army Pentagon | Washington, DC 20310-0109

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You may also view this document at: https://www.asafm.army.mil/Audit/

…Challenges are nothing new to the United States Army. In fact, they offer us the opportunity to assess and get better. We just have to stay grounded. I've been reflecting on our Army's motto – "This We'll Defend" – which was first used as a battle cry by the Continental Army. Today, it reminds us that our Army's purpose is timeless and clear – to fight and win the Nation's wars...This is our mandate from the American people and it requires action in four focus areas: Warfighting, Delivering Ready Combat Formations, Continuous Transformation, and Strengthening Our Profession...

– GEN RANDY A. GEORGE, Chief of Staff of the Army

United States Army : 1500 Army Pentagon : Washington, DC, 20310-1500 : www.army.mil