



# DEFENSE FINANCE AND ACCOUNTING SERVICE

## 2023 AGENCY FINANCIAL REPORT







# ABOUT THIS DOCUMENT

Defense Finance and Accounting Service (DFAS) is pleased to present the Fiscal Year (FY) 2023 Agency Financial Report (AFR). This report provides high-level financial information for the FY related to our mission and stewardship of resources.

The purpose of the DFAS FY 2023 AFR is to inform the President, Congress, and the American people about how DFAS used Federal resources entrusted to the Agency to reliably deliver first-class accounting and finance services to the Department of Defense (DoD).

The AFR highlights our activities, accomplishments, progress, and financial analysis for the FY. It contains our Financial Statement Audit Report along with management's assurances on internal controls.

This report is prepared in compliance with Office of Management and Budget's (OMB) Circular No. A-136, Financial Reporting Requirements. The AFR is available online at [www.dfas.mil](http://www.dfas.mil).

## HOW THIS REPORT IS ORGANIZED

### SECTION 1

#### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section provides a high-level overview of our organizational structure and mission; selected accomplishments; analysis of financial performance; and management's assurances on systems, legal compliance, and controls.

### SECTION 2

#### FINANCIALS

This section begins with a letter from our Chief Financial Officer and includes our Agency's independently audited financial statements and notes, along with the related Independent Auditor's Report.

### SECTION 3

#### ADDITIONAL

This section contains additional information such as a glossary of acronyms and photo captions.



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# MESSAGE FROM THE DIRECTOR



AUDREY Y. DAVIS

*Audrey Y. Davis*



# MESSAGE FROM THE DIRECTOR

Hello and thank you for taking a moment to review the DFAS FY 2023 Agency Financial Report. It is my honor to share the Agency Financial Report with you. Far more than just a presentation of our financial statements, this report is a snapshot of our dedication to proudly serving America's heroes every day.

In this document, you will learn about various projects we have underway or have completed throughout the fiscal year. For example, we continue to lead in audit results, earning our 24th consecutive unmodified audit opinion on the DFAS Working Capital Fund financial statements. As we complete the second year of our five-year strategic plan, we continue to accelerate our mission and vision to achieve goals that align with our Secretary of Defense Priorities, as well as the U.S. National Defense Strategy. In order to align ourselves, The DFAS Team of Teams, hones in on our diverse talented workforce to focus on our four strategic priorities to Strengthen Customer Partnerships, Modernize the Business Environment, Enhance Performance, and Invest in People.

In FY 2023, DFAS achieved strategic goals that kept us closely aligned with our mission and vision statements, and also moved the Department toward its long term goals. Our collaboration with ADVANA to develop and implement the Data Integrity Dashboard is an example of which I am especially proud. This Dashboard will pay dividends as it allows data owners to easily identify opportunities for data improvements that ultimately interface with the Departments financial statements. Improved data will lead to improved audit performance and increased integrity of financial results.

In FY 2024, we will continue to focus on supporting the mission of our customers and their financial management priorities, and through those partnerships, we will move together toward the U.S. National Defense Strategic and Financial Management goals. We will continue to accelerate mission capabilities and I am looking forward to what we will achieve together.

Through the foundations of our mission, vision, and core values, and woven into the links we have to the Secretary of Defense Priorities, the U.S. National Defense Strategy, and the Department's FY22-26 Financial Management Strategy, we continue to help the Department reach new heights. This defined focus is a key reason we are a recognized leader in financial management.

As we enter into FY 2024, we are committed to accomplishing even more as we build upon a proven record of success. Our people perform and produce results with unwavering dedication. DFAS is a learning organization, remaining adaptable to change in support of our customers. I am grateful to lead the dedicated DFAS employees who support the men and women of our armed forces and Nation every day, and doing so is my greatest source of pride.

## Section I

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DFAS AT A GLANCE

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INTRODUCTION

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STRATEGY IN ACTION

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AUDIT OPTIMIZATION

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TRANSFORMATIVE ACHIEVEMENTS

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MANAGEMENT ASSURANCES

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COMPLIANCE AND REGULATIONS

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FINANCIAL DISCUSSION AND ANALYSIS

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**The U.S. Air Force Air Demonstration Squadron “Thunderbirds” fly F-16 Fighting Falcons above the McChord Field flightline during their rehearsal for the Joint Base Lewis-McChord Airshow and Warrior Expo at Joint Base Lewis-McChord, Wash., July 14, 2023. The mission of the JAWE is to foster goodwill to educate and familiarize attendees with the people, mission, and equipment of the Air Force, Army and other armed services while continuing to provide installation-wide mission support. (U.S. Air Force photo by Airman 1st Class Kylee Tyus)**



# DFAS AT A GLANCE



## OUR AGENCY

The DoD established DFAS in 1991 to provide finance and accounting services for DoD components during times of peace and conflict.

Today, we support military and civilian customers throughout the world. Our mission emphasizes the importance of DFAS's leadership role in standardizing and improving finance and accounting activities across the Federal Government.

DFAS pays all DoD military personnel, retirees and annuitants; civilians for all of DoD; and additional federal customers. DFAS is also a shared services provider, supporting electronic government initiatives in partnership with customers such as the Executive Office of the President, the Department of Energy, the Department of Veterans Affairs, the Department of Health and Human Services, and the U.S. Agency for Global Media.

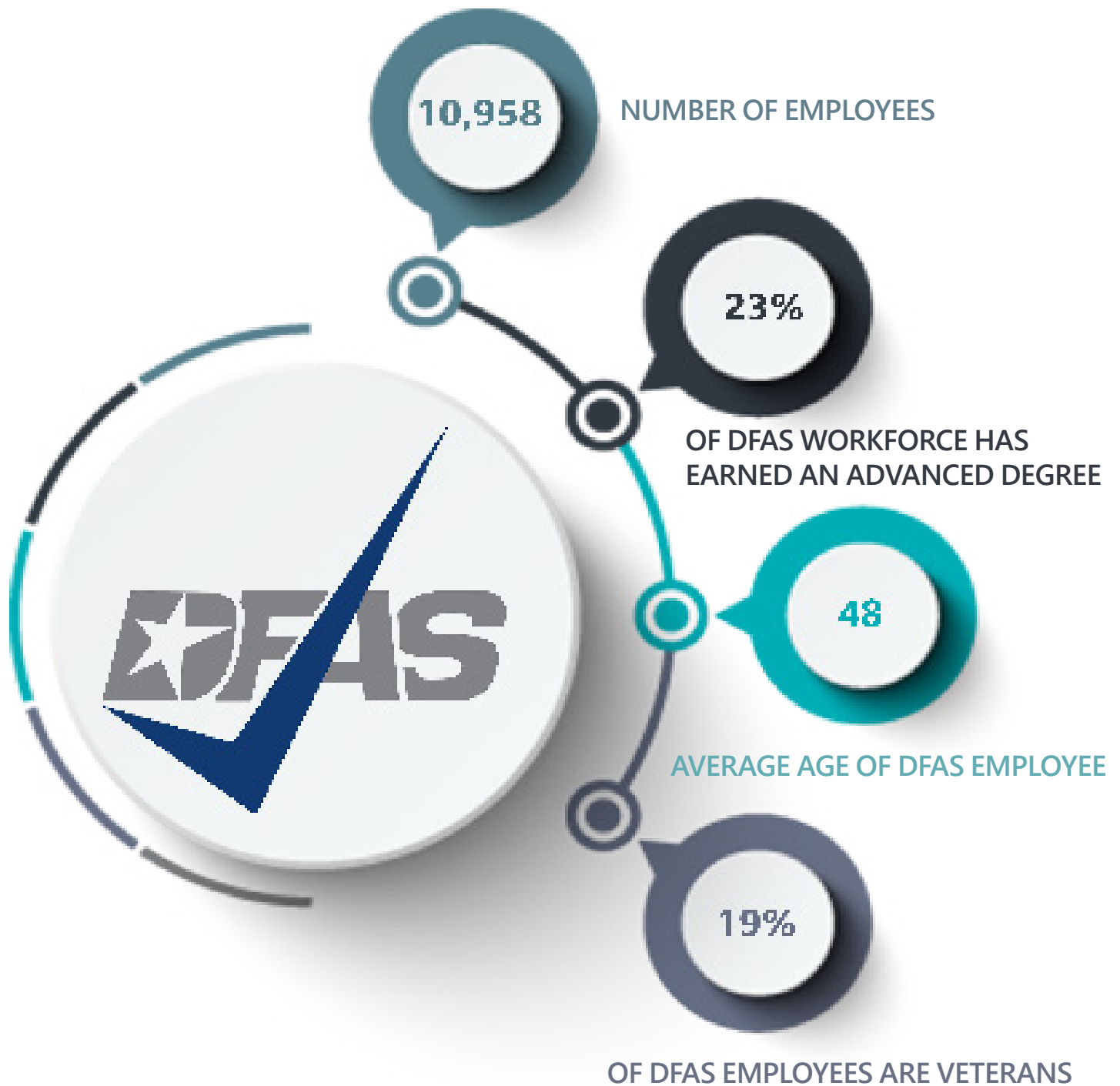
In 1995, DoD established DFAS as a Regional Service Center for Human Resources (HR) operations to provide overhead efficiencies for defense agencies and Office of the Secretary of Defense components. DFAS currently provides HR services for seven Defense Agency customers.

Financed as a working capital fund, instead of through direct appropriations, DFAS bills its customers for the costs required to provide services. The Agency sets annual billing rates for services two years in advance based on anticipated customer workload and estimated costs calculated to offset any prior year gains or losses.

DFAS's operations are subject to oversight by the DoD as well as the executive and legislative branches of the Federal Government. DFAS has consistently improved its financial processes, systems and tools to understand, manage and improve cost directly aligned to the National Defense Strategy (NDS). These improvements include shedding outdated management practices and structures, while integrating insights from business innovation. The Agency aims to support military readiness and achieve reform through greater performance and affordability, predictive analytics and continuous communication. We have always focused on the goal of providing services at the best value for our customers.



## DFAS BY THE NUMBERS



## WHAT WE DO

DFAS is the principal Department of Defense executive for finance and accounting requirements, systems, and functions. That role includes the responsibility to direct the consolidation, standardization, and integration of finance and accounting requirements, functions, procedures, operations, and systems within the Department of Defense.



### OUR VISION

To be a valued partner in financial management by consistently delivering first-class service and products.



### OUR MISSION

Deliver financial excellence and quality pay services for our customer.

#### INTEGRITY

Doing what is right.

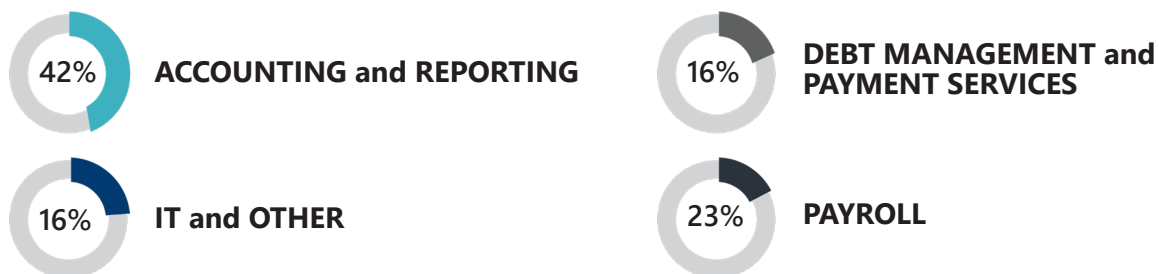
#### SERVICE

Remain a trusted financial partner.

#### INNOVATION

Creating better ways to do business.

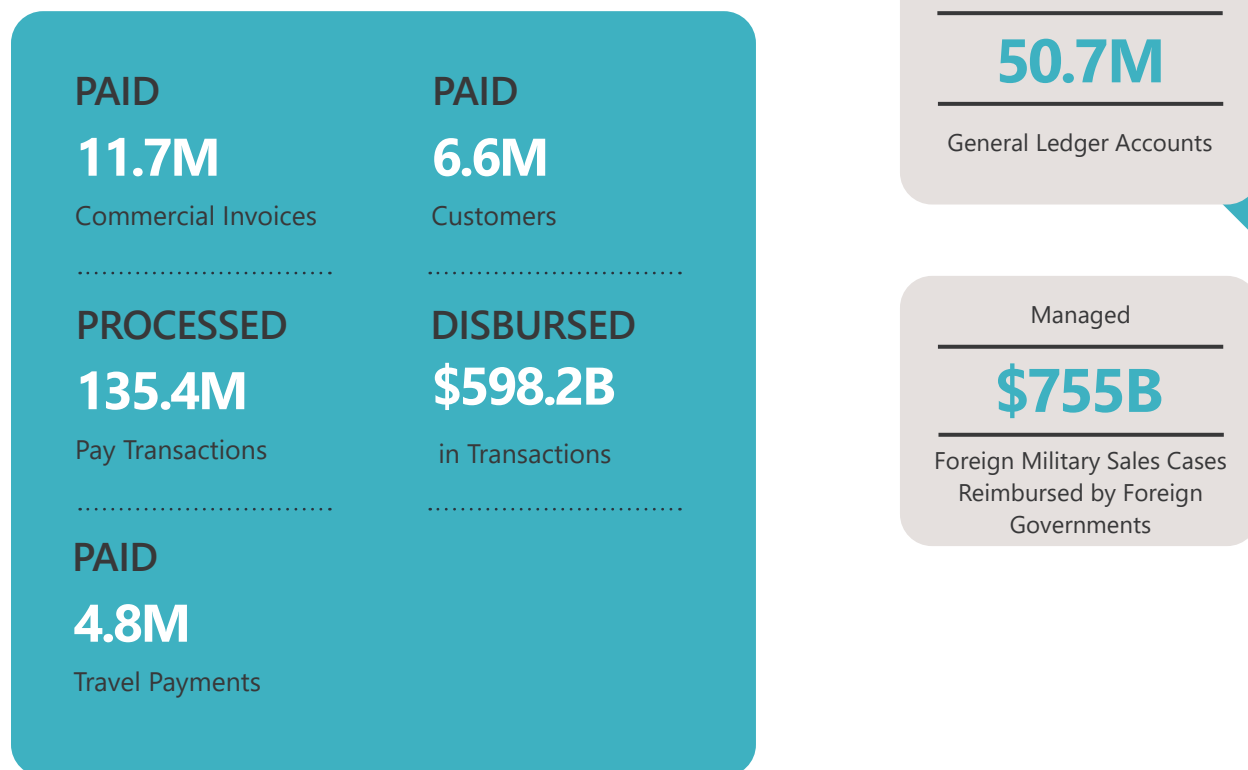
## OUR REVENUE STREAMS



## FINANCE AND ACCOUNTING SERVICES



## PAY PEOPLE AND VENDORS





# OUR CUSTOMERS



## WITHIN THE DOD



All DoD Military Personnel, Retirees, Annuitants, and Civilian Personnel

Defense Agencies and the Office of the Secretary of Defense

Major DoD Contractors and Vendors

## OUTSIDE THE DOD



# FY 22-26 STRATEGIC PRIORITIES



## EXECUTIVE BOARDS

### BOARD OF DIRECTORS

Approves DFAS's strategy, oversees the budget formulation and execution, approves recommendations from the Enterprise Business Council, and acts as the Agency's Internal Audit Committee.

Members: Director, Chair; Principal Deputy Director; Deputy Director, Operations; and Deputy Director, Strategy and Support.

### STRATEGIC COUNCIL

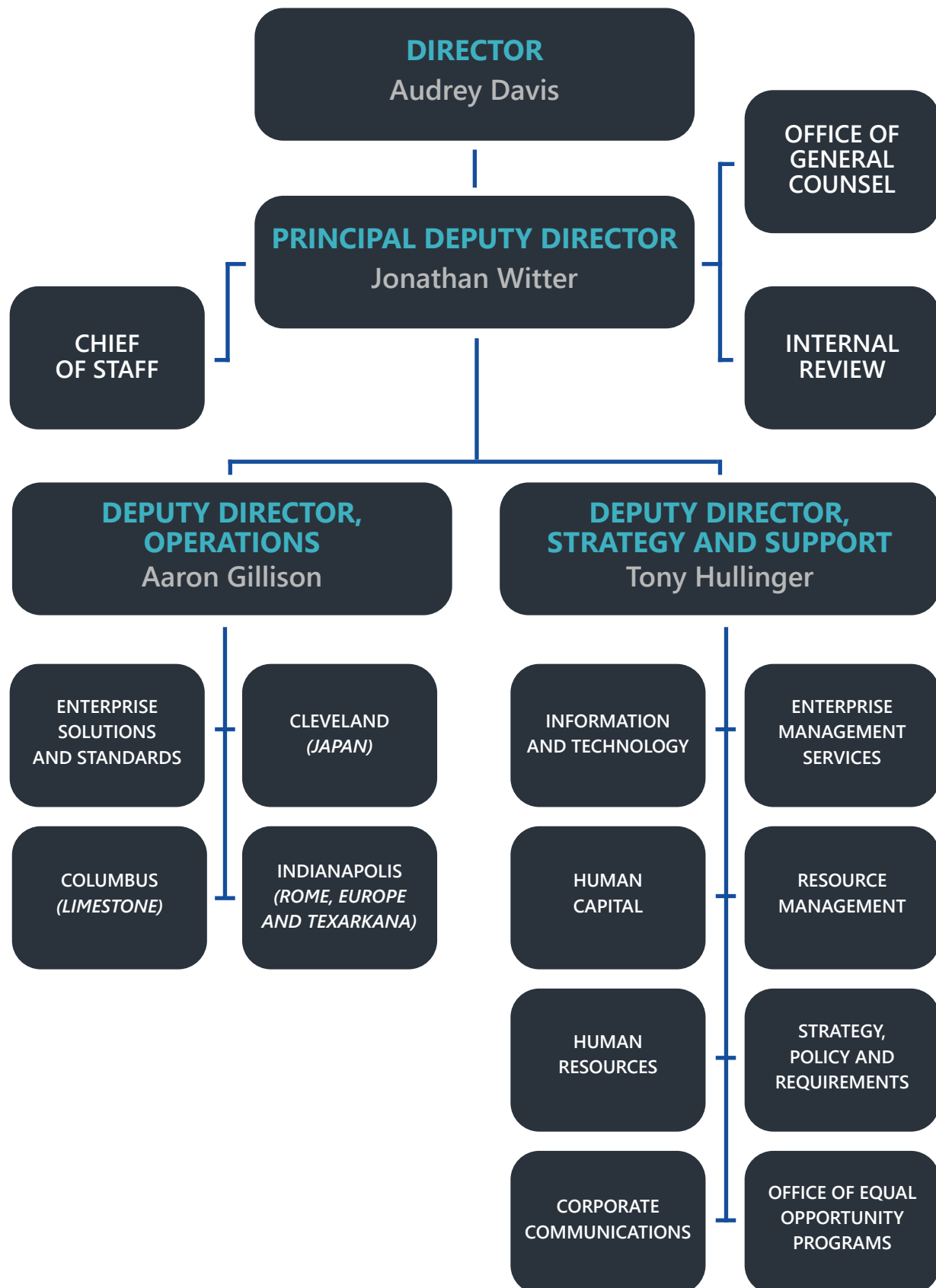
Evaluates content and structure of the DFAS strategy, corporate operational dashboard, and other Agency priorities to successfully execute strategy.

Members: Director, Chair; Principal Deputy Director; Deputy Director, Operations; Deputy Director, Strategy and Support; DFAS senior executives and key GS-15s.


### ENTERPRISE BUSINESS COUNCIL

Serves as the DFAS governance body chartered to fulfill a number of statutory/regulatory requirements, and provides a forum for discussion and vetting of business case analyses or other fact-based analyses and requirements for enterprise-wide programs.

# ORGANIZATIONAL CHART



# OUR LOCATIONS



Indianapolis, IN  
Limestone, ME  
Rome, NY  
Bratenahl, OH  
Cleveland, OH  
Columbus, OH  
Texarkana, TX  
Alexandria, VA

**We operate at eight stateside locations and  
in Europe and Japan.**



Kaiserslautern,  
Germany

Yokota Air Base,  
Japan

10,958 employees around the globe to support the warfighter



# INTRODUCTION





**U.S. Army Sgt. 1st Class Keith Bartz, assigned to the 69th Air Defense Artillery Brigade, Headquarters Battalion, fires at the target to zero his weapon at Fort Cavazos, Texas, Oct. 18, 2023. Soldiers are required to shoot with high accuracy and precision, requiring that their weapons system is zeroed to them first. (U.S. Army photo by Sgt. Christopher Neu)**

Fiscal Year (FY) 2023 marks the second year of our five year FY22-26 Strategic Plan. This plan has four priorities: Strengthen Customer Partnerships, Enhance Performance, Modernize the Business Environment, and Invest in People. This plan has been carefully tailored to position DFAS to deliver quality customer service, employee development, and modernization throughout our partnerships across the Department of Defense and military services. This year, our Agency Financial Report (AFR) takes a look at the strategy and the goals our leadership achieved during year two. We then take a closer look at our audit support and how we continue to be an example to other agencies with our 24th consecutive unmodified financial statement audit opinion. Finally, we discuss the Defense Agencies Initiative (DAI) and our transition to this innovative Enterprise Resource Planning (ERP) system.

### Strategy In Action



DFAS's Strategy highlights the myriad of growth made during FY 2023 to bring past and present leader's concepts to fruition. With Strengthening Customer Partnerships, Enhancing Performance, Modernizing the Business Environment, and Investing in People as the four critical areas in the DFAS Strategic Plan, we highlight some of the strategic success stories that DFAS accomplished to meet these goals.

### Audit Optimization



The annual goal for DFAS is to sustain an unmodified audit opinion and this year DFAS WCF celebrates its 24th consecutive unmodified financial statement audit opinion. To maintain this opinion, DFAS adopts audit strategies, accounting principles, and internal control toolsets into daily business practices to achieve and sustain DoD audit goals.

We discuss our tried and true practices that show an accurate depiction of our financial statements, as well as highlighting accomplishments as a service provider to help our customers achieve their audit goals. Finally, we touch briefly on the achievement of sustaining this opinion while also implementing a new financial ERP system.



### Transformative Achievements

As we continue with our innovative strategy and build upon audit accomplishments, DFAS joined 27 other Defense Agencies to implement the Defense Agencies Initiative during FY 2023. This transition came with great planning and attention. We discuss the highlights of this endeavor and discuss why it is so impressive to be the first 100% working capital fund to implement this system.



Daniel Neumann, Client Manager, DFAS Director for Operations Aaron Gillison, and Director of Finance Standards and Customer Service Cathy J. Van Hoesen participate in a panel discussion in September 2023 during the Annual Business Refresh, the DFAS Director's annual business meeting with her senior leadership team. (DoD photo by Steven J. Lawson, Corporate Communications)





An Atlas V carrying the USSF-7 mission to space lifts off from Space Launch Complex-41 at Cape Canaveral Air Force Station, Florida, May 17. The mission marks the 80th successful mission in a row for the National Security Space Launch program. (Photo courtesy of United Launch Alliance)



# STRATEGY IN ACTION



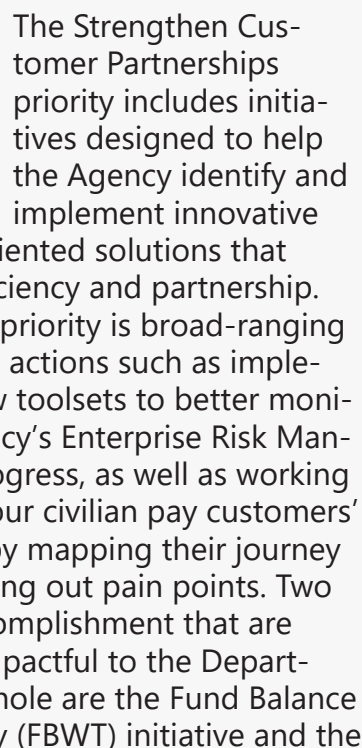




**A U.S. Coast Guardsman suspends from a MH-65D during an air show as part of San Francisco Fleet Week 2023 at San Francisco Bay, San Francisco, Oct. 7, 2023. SFFW is an opportunity for the American public to meet their Navy, Marine Corps and Coast Guard teams and experience America's sea services. During fleet week, service members participate in various community service events, showcase capabilities and equipment to the community, and enjoy the hospitality of the city and its surrounding areas. (U.S. Marine Corps photo by Cpl. Trent A. Henry)**

DFAS places a high value on being prepared for the future in order to achieve its Mission to deliver financial excellence and quality pay services for its customers. DFAS's fiscal year (FY) 2022-2026 Strategic Plan provides structure to ensure the Agency stays on course to realize its Vision to be a valued partner in financial management by consistently delivering first-class service and products. The plan includes four priorities: Strengthen Customer Partnerships, Enhance Performance, Modernize the Business Environment, and Invest in People.

Each of these priorities is championed by a Deputy Director of the Agency and includes several areas of focus. Each focus area is overseen by an executive Outcome Leader. These leaders meet each month as a strategic council to oversee progress on initiatives and take any needed actions to keep the Agency on track to meet annual goals. This emphasis and focus on strategy is advantageous to DFAS and to the Department of Defense overall. The DFAS strategy is closely linked to the Secretary of Defense priorities, and the Agency's strategic successes support the overarching goals of the National Defense Strategy and the DoD Financial Management Strategy.



Efforts in the FBWT Internal Controls initiative will better position the Department for clean audit opinions and will enable an auditable DoD FBWT financial statement line item. In FY 2023, the primary work has been to reduce balances in areas of risk, such as suspense accounts, Statements of Difference amounts, and deposit accounts. For each risk area, quarterly Universe of Transaction reports and corresponding management analyses are produced. These reports provide valuable information to auditors, allowing them to better understand the materiality of risk area balances for specific reporting entities. Also this year, Defense Agency FBWT reconciliations were moved from a legacy system and are now housed in ADVANA,

DoD's big data platform. Both of these accomplishments improve the ability to reconcile and audit FBWT.

The actions included in the Data Integrity initiative will help move the Department toward standardized financial reporting processes through increased data integrity. In FY 2023, the project team developed the Data Integrity Dashboard in ADVANA. This dashboard enables a view of accounting data files that will help DoD financial managers more easily see where their data is appropriately balanced, and where their data is not. This view assists data owners in identifying the root cause of reporting issues, which will lead to resolution and ultimately, improve integrity of the financial statements.

### Enhance Performance



The Enhance Performance priority focuses on efforts to achieve cost, schedule, and performance targets with the delivery of efficient value-added services. One of the most impactful initiatives in this priority is the Non-Treasury Disbursing Operations (NTDO)/ Treasury Disbursing Operations (TDO) initiative, in which DFAS is working with its customers to transition the reporting of disbursements and collections from a monthly process to a daily process. The monthly process resulted in discrepancies between DoD accounting systems and US Treasury balances, known as Statement of Differences (SOD) amounts, which reduce the auditability of the Department's FBWT line item on its financial statements. With the transition to daily reporting, SOD discrepancy amounts are completely

eliminated, which not only optimizes the end-to-end disbursing process, but also significantly improves the auditability of the Department's financial statements.

Since the beginning of the FY 2022-2026 strategic cycle, DFAS has implemented MOCAS (Mechanization of Contract Administrative Services) NTDO daily reporting for Air Force and Navy and a total of six disbursing stations migrated to daily reporting. The daily reporting process effectively eliminated SODs for each one of these stations with a combined impact of \$295.7 million monthly. DFAS's work on this initiative continues, in partnership with the Navy, Air Force, and Army, and the same elimination of SODs is expected for every disbursing station transitioned to daily reporting.

### Modernize the Business Environment



Many exciting things are happening within DFAS's Modernize the Business Environment priority, which includes initiatives that will help the Agency reform processes and systems in order to strengthen itself as a valued and competitive shared service provider. The exploration of new technology is key to achieving success in this area, and DFAS is striving to take advantage of opportunities in the areas of Robotics Process Automation (RPA) and Artificial Intelligence (AI) while simultaneously guarding itself and its customers against potential dangers. To keep members safe, DFAS enhanced our fraud protection with the deployment of an AI machine learning-based ALERT tool helping to keep myPay accounts safe.



Progress in the RPA initiative will open many areas of opportunity to streamline the more manual aspects of financial management work at DFAS, which will allow more time to focus on accounting and analytics work. In FY 2023, DFAS deployed more than 20 attended BOTs, adding to a growing list of BOTs being used by employees to create efficiencies, which enables them to spend more of their day on core financial management activities, including customer service. DFAS is discovering that many BOTs developed for one team can be applied to work on other teams, resulting in exponential increases in benefits realized.

With the FY 2022-2026 Strategic Plan, DFAS began its exploration of artificial intelligence (AI) by building a sentiment analysis model. Sentiment analysis is the use of AI to recognize emotions expressed in text, such as responses to customer satisfaction surveys, and it assists management in quickly understanding the distribution of positive, negative, and neutral responses. This year, DFAS established an AI Cognitive Services Technology initiative to build structure, which will support the continued development of AI tools. In FY 2023, DFAS stood up its AI Center of Excellence and established formal governance for the identification and prioritization of appropriate use cases for development. In addition, the first use case was identified, developed, and deployed at the DFAS Texarkana site.

Another key area in the Modernize the Business Environment priority is the continuing effort to move workloads from legacy systems into modern Enterprise Resource Planning (ERP) systems. The Reduce Legacy System initiative has been going strong for more than nine years, and over that time DFAS has partnered with its customers to retire

27 systems, achieving a cost savings of \$29 million. In FY 2023, DFAS retired four systems: Department 97 Reconciliations and Reporting Tool (DRRT), Standard Accounting and Reporting System (STARS), Simplified Workflow Access Protocol (SWAP), and e-Biz Momentum. These retirements resulted in savings of more than 93% of the cost of running the legacy systems. The work continues, and each system retirement saves costs and reduces the technical debt of the Department.

### Invest in People



The initiatives within the Invest in People priority were selected as a reflection that DFAS understands its people are the foundation for its success.

Building the skill sets of employees to align Agency expertise with the needs of the financial management community will strengthen DFAS technicians and accountants, making sure all are prepared for the future and that all know they are a valuable part of the organization. One of the main highlights this year that also supports the Secretary of Defense's "Taking Care of our People Initiative" was that we implemented pay increases for basic needs allowance and completed programming for the Department Care Flexible Spending Account initiative.

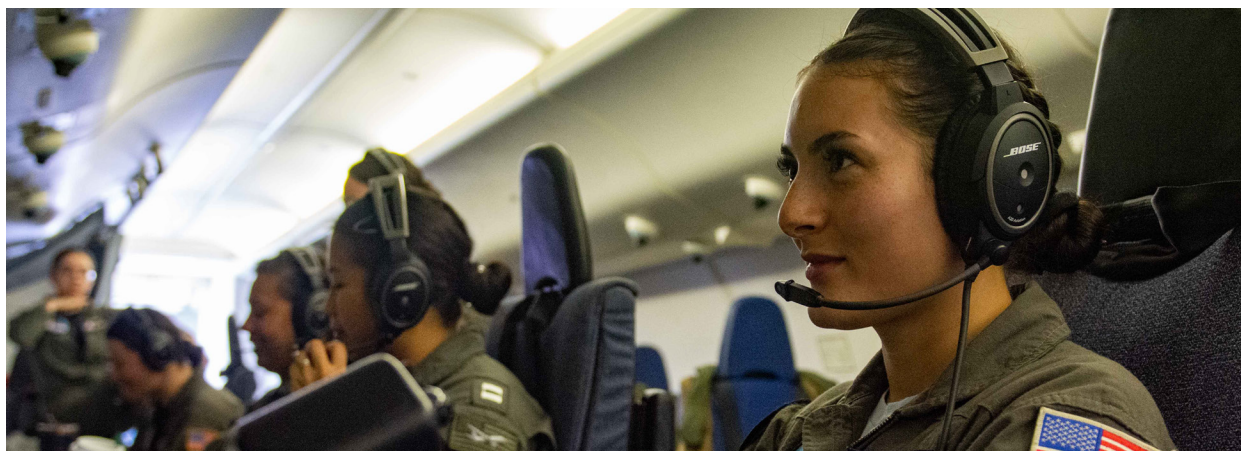
Through action in the Training Plan for Upskilling IT initiative, DFAS has implemented a modernized learning approach to expand the digital technology expertise of program participants. This approach uses an initial assessment of participants' knowledge to identify personalized training designed to improve skills in a variety of technical areas. Another effort within this initiative identified individuals to receive advanced

training on the Department's ADVANA platform, in order to assist in resolution of trouble tickets. As the Department's finance and accounting service provider, there are many areas where DFAS is the best choice to find solutions to an ADVANA problem. The training was successful and the partnership between DFAS and ADVANA has been fruitful, with 100% of the targeted population fully trained and actively working tickets.

Finally, DFAS launched the Mission Integrated Diversity Implementation Plan initiative with an online mentoring tool, which is available to all DFAS employees. Mentors and mentees register within the tool, which then makes potential matches. Participants follow up with each other to make sure it is a good match and then begin the mentoring process. This tool is especially meaningful in a hybrid work environment because it helps employees at all levels make important personal mentoring connections that will build relationships and establish networks. A strong focus on people and their development also earned DFAS a DoD Workforce Recruitment award. The inclusion of this initiative in the DFAS strategy demonstrates the Agency's recognition of the importance of helping employees build networks regardless of their work environment.

## Conclusion

DFAS uses its formal written strategy as a vehicle to channel efforts and ensure the agency moves in the right direction to successfully execute its mission and achieve its vision for the future. The FY 2022-2026 Strategic Plan provides structure that leaders can rely on to guide them toward meeting the Agency's articulated goals. The plan also offers flexibility, and initiative leaders can make appropriate adjustments within the five-year cycle to accommodate shifts in the business environment. As DFAS reaches the halfway point of its FY 2022-2026 strategic cycle, annual accomplishments prove the Agency is solidly on track to meet the overarching goals it set for itself. By doing so, it is supporting key DoD efforts included in the Financial Management Strategy and the National Defense Strategy and accelerating mission capabilities through partnership.



**JACKSONVILLE, Fla. Sept. 21, 2023** Patrol Squadron (VP) 45 conducted its first all-female flight aboard a P-8A Poseidon aircraft out of Jacksonville, Florida, Sept. 21. A total of 12 aircrew consisting of eight officers and four enlisted Sailors participated in a training flight to train the future of naval aviation. An additional five female ground crew served various maintenance roles to ensure the aircraft met all requirements and was safe for flight. (U.S. Navy photo by Mass Communication Specialist 2nd Class Jonathan D. Berlier)

# AUDIT OPTIMIZATION







**A cadet from the Class of 2027 completes the assault course at the U.S. Air Force Academy's Jacks Valley in Colorado Springs, Colo., July 18, 2023. The training is a six-week indoctrination program to guide the transformation of new cadets from being civilians to military academy cadets prepared to enter a four-year officer commissioning program. (U.S. Air Force photo by Rayna Grace)**

In preceding years, DFAS has persistently maintained a rising trajectory toward achieving favorable outcomes in audits. DFAS WCF has earned its 24th consecutive unmodified financial statement audit opinion. The audit of DFAS WCF's financial statements was conducted by Williams Adley & Company, and their comprehensive audit report has been incorporated within this document.

### **Unmodified Opinion**

As seasoned professionals who completed a financial system transition, we orchestrated five thorough financial process walkthroughs and three IT process walkthroughs, employing communication platforms including Microsoft Teams, teleconferencing, and Adobe Connect. Additionally, on-site inventory testing was conducted in both Columbus and Indianapolis with both locations implementing on-site visits for the first time since the Covid-19 pandemic.

In the pursuit of seamless collaboration and consistent correspondence, we sustained a regimen of daily discussions between DFAS mission units involved in audit testing and the Independent Public Accountant (IPA). This approach fostered active engagement in addressing any issues identified during the planning, internal control, interim, and year-end sampling phases. Concurrently, weekly meetings continued with the IPA management team, during which they offered a weekly synopsis

of information gathered from sampling activities to DFAS leadership. This measure ensured accountability for pending matters and furnished a platform for senior management to preemptively deliberate on any potential concerns. It also helped DFAS gauge exactly where we stood with the implementation of our new financial system.

During fiscal year 2023, we successfully fulfilled nearly 250 requests, constituting approximately 500 documentation packages. A praiseworthy timeliness rate of 99% was achieved for all requests. DFAS continues to defy odds and prove that employees work efficiently in the virtual environment.

DFAS continuously dedicates its efforts to addressing our own audit and sustaining our unmodified opinion. The more exciting piece is how DFAS assists as a service provider!

### **Through The Lens of a Service Provider**

DFAS is dedicated to delivering first-class service and products to our customers. We understand the important financial responsibilities entrusted to us by the American taxpayer with a steadfast focus on supporting the men and women who defend our great Nation.

As a valued service provider, we play an integral role in audit by providing finance and accounting services to the Army, Navy, Air Force, Marine Corps, Space Force and Other Defense Organizations (ODO). This role includes:

- preparing process maps,
- conducting walk-throughs,
- documenting internal controls,
- providing supporting documentation,

- creating and performing reconciliations,
- conducting internal audit testing,
- implementing customer Corrective Action Plans (CAPs), and
- addressing Notice of Findings and Recommendations (NFRs).

To understand the scope of our business, DFAS actively supports 28 financial statement audits. This includes 27 stand-alone audits and one DoD Agency-Wide Consolidated audit. In total of these audits, there were 308 NFRs from the FY 2022 audit supported by 286 DFAS owned CAPs. So far, DFAS closed 47 NFRs from FY 2022, and as of October 2023 there are 50 FY 2023 NFRs with associated DFAS CAPs. Our current actual FY22 NFR closure rate is 15% with a projected closure rate of 28%. At 28%, we are projecting to once again exceed the DoD target closure rate of 20%. At this rate, we will have exceeded this goal for the past four consecutive years.

DFAS places a strong emphasis on auditor-client relationships to ensure continuous communication and guarantee mutual efforts toward achieving audit goals. Throughout the Agency, we have audit support teams dedicated to each of our customers. Their focus is to maintain relationships, ensure milestones are met, and to make certain both parties receive what they need by providing the right information within the established timeframe. This valued partnership continues to increase efficiencies and enhance outcomes. Since the beginning of this year, our audit support offices have performed more than 600 auditor walkthroughs while fulfilling more than 14,000 auditor requests with more than 69,000 pieces of key supporting documentation at a timeliness rate of 99%.



## Balancing the Checkbook

As the Department of Defense's lead to Fund Balance with Treasury (FBWT), DFAS continues to evolve in our role to reconcile the DoD fund balance to the Department of Treasury records. Each new calendar year, we kickoff the new audit year with a two-day virtual FBWT Summit. This foundational meeting sets the tone to communicate key initiatives and share significant accomplishments while focusing on the impacts of FBWT auditability such as reducing balances and variances for Statement of Differences, Suspense Accounts, the Cash Management Report, and Deposits. This past year's summit brought together a diverse audience of more than 1,000 auditors and customers.

As one of the Secretary of Defense's (SECDEF's) audit priority goals, DFAS continues its strategic approach to make headway on downgrading the material weakness by spearheading remediation efforts with our stakeholders. Over the past year, we leveraged cross-Federal Government partnerships, expanded financial statement measures, created extensive plans with hundreds of milestones, and built transaction-level reconciliations (universe of transactions) to monitor and resolve both aged and overall variances. This resulted in significant progress in reducing balances and inflow, sustaining balance reductions, and identifying root causes while strengthening internal controls and compiling and accelerating the development of a universe of transactions.

Looking to the year ahead, we will continue to develop and maintain key reconciliations, detailed universe of transactions, management analyses, and materiality assessments. DFAS will continue to work to sustain overall and over-aged balances at immaterial levels

while building and maturing materiality methodologies and processes to review FBWT risk areas for financial statement disclosures.

## Risk Management and Internal Controls

This fiscal year DFAS kicked off the "Check It to Protect It!" Agency-wide campaign reinforcing that checking our work ensures it gets done right, which protect DFAS' customers by effectively and efficiently accomplishing our mission.

To further support our RMIC environment, following guidance from the Office of Management and Budget (OMB) Circular, A-123, which requires federal entities to have an Enterprise Risk Management capability to identify, assess, respond, and report on risks, DFAS launched the Enterprise Risk Management (ERM) Toolset. The ERM Toolset platform combines our multiple, disparate systems into one robust, comprehensive technology solution to support risk, control, and audit management functions. As a result, the ERM Toolset replaces the Audit Management Tool (AMT), Remedy (Audit), iControl, Federal Financial Management Improvement Act (FFMIA), Federal Information System Controls Audit Manual (FIS-CAM), and supports ERM and Deficiency Assessment and Management Process (DAMP) reporting.

## First-Class Business Operations

As a service provider, in FY 2023, DFAS assisted DISA Working Capital Fund in obtaining its 4th consecutive unmodified audit opinion. By proactively implementing corrective action plans to meet audit remediation timelines, we also sustained unmodified audit opinions for our Defense Commissary Agency (DeCA), Defense Contract Audit Agency

(DCAA), Department of Defense Inspector General (DoDIG), and Defense for Health Affairs – Contract Resource Management (DHP-CRM) customers.

Alongside with our customers, we also celebrated the sustainment of the 31st unmodified opinion for the Military Retirement Fund (MRF). Additionally, we reached the 21st consecutive qualified opinion for the Medicare-Eligible Retiree Health Care Fund (MERHCF). These two trust funds make up a significant portion of the investment portfolio for the DoD. Through all of these successes, we realize there are no small achievements and audit is not a one-size fits all approach.

### **Another Piece to the Puzzle: SOC 1® Reports**

Another big success of the audit are the System and Organization Control reports; more commonly known as a SOC 1 reports. They are examinations of key processes and internal controls that are common across multiple customers. DFAS engages in Type 2 SOC 1 reports with multiple IPAs. Through the course of these examinations, the IPAs opine on both the design of DFAS controls and the operating effectiveness of those controls in the DFAS environment. The

results of a SOC 1 examination can assist component auditors in gaining assurance over the control environment of DFAS services provided to our customers and reduce duplicative audit workload for DFAS.

In FY 2023, DFAS achieved five unmodified SOC 1 opinions, including two first time unmodified opinions in the Vendor Pay examination for Vendor Pay – Defense Enterprise Accounting and Management System (DEAMS) and Vendor Pay - Navy Enterprise Resource Planning (ERP) in its inaugural year. The Civilian Pay and Disbursing SOC 1 reports both received their 11th consecutive unmodified opinions. DFAS also achieved seven favorable modified SOC 1 opinions in FY 2023. Among the modified opinions, the DFAS Defense Cash Accountability System (DCAS) SOC 1 reduced NFRs by 50% and achieved information Technology (IT) General Controls for the first time, and the Financial Reporting SOC 1 reduced NFRs by 33%.

As we look toward the future, our goal is to safeguard existing unmodified opinions and upgrade qualified opinions through the implementation of additional procedures and best practices.



**U.S. Marines with Maritime Special Purpose Force (MSPF), 24th Marine Expeditionary Unit (MEU), fast-rope from an MH-60 Sea Hawk as part of visit, board, search and seizure (VBSS) training on Felker Army Airfield, Fort Eustis, Virginia, Oct. 27, 2023. The VBSS course teaches Marines with MSPF and Battalion Landing Team 1/8 how to properly conduct vessel boarding procedures and maritime interdiction operations while under-**

### **Another Piece to the Puzzle: System Access Controls**

Another Secretary of Defense priority we align our resources to is “Establish User Access Controls.” At DFAS, we are continuously improving system access security and access management processes for our employees, and the military and civilian customers we support.

During this fiscal year, we continued our partnership with the Defense Information Systems Agency (DISA) to define and develop an Identity, Credential, & Access Management (ICAM) DoD-wide enterprise tool. Through collaboration with DISA, we communicated and tested our universal requirements for systems access controls within an enterprise ICAM pilot

development. These requirements reflect modern security and access management policy while addressing DoD audit findings for the multiple defense organizations we support.

To better plan, control, and test, DFAS took a phased-approach and rolled out the new ICAM tool to two pilot financial management systems, the Standard Material Accounting System (SMAS) and the Defense Industrial Financial Management System/NAVAIR Industrial Material Management System (DIFMS/NIMMS). However our work does not stop there; it’s really only beginning. In FY 2024, our focus will be on migration efforts for an additional 13 financial management systems.



In addition to implementing modernized technology improvements for system access controls, we are also dedicated to improving current processes. DFAS received a 24% reduction in the number of new or reissued NFR conditions for access controls requiring DFAS corrective action during the FY 2022 audit cycle when compared to FY 2021. We also anticipate further reductions upon completion of the FY 2023 audit cycle.

### **The Path Ahead**

As we enter a new fiscal year, we continue to drive excellence through our dedicated workforce. Our people are essential to sustaining our success as we continue to increase value and relevance for the Department. Using our DFAS strategy as our guide, we will continue to drive a methodical, disciplined approach to track progress and further advance our mission of delivering financial excellence.

Our work is never done. We stand ready for tomorrow, as we continue to align our resources and provide value-added services and products for maximum return to our customers.



**Mr. Jonathan Witter, DFAS Principal Deputy Director, Mr. Don Means Chief Information Officer and Director I&T, Ms. Shirley Reed, Director Emerging Capabilities, Mrs. Elaine Ortiz, Deputy Site Director, Mrs. Katie Gambill, Director Enterprise Management Services participate in a panel discussion for the 2023 Annual Business Refresh at the U.S. Air Force National Museum at Wright-Patterson Air Force Base. (DoD photo by Steven J. Lawson, DFAS Corporate Communications)**





A NASA SLS launches the Artemis I mission from Space Launch Complex 39B at Kennedy Space Center, Fla., Nov. 16, 2022. Artemis I is a planned uncrewed test flight for NASA's Artemis program that is the first integrated flight of the agency's Orion MPCV and Space Launch System super heavy-lift rocket. (U.S. Space Force photo by Joshua Conti)

# TRANSFORMATIVE ACHIEVEMENTS







An E-2D Hawkeye, attached to Carrier Airborne Early Warning Squadron (VAW) 121, lands onto the flight deck of the Nimitz-class aircraft carrier USS George H.W. Bush (CVN 77), during flight operations Nov. 14, 2022. (U.S. Navy photo by Mass Communication Specialist 3rd Class Samuel Wagner)

Enterprise Resource Planning (ERP) implementations can be pivotal turning points for organizations, ushering in a new era of efficiency, collaboration, and growth. One such inspiring success story is the journey of DFAS, a trailblazing example of how a well-executed ERP implementation can lead to remarkable achievements. DFAS took the opportunity to utilize this initiative as a chance to perform widespread review of our business processes and policies. This review helped DFAS eliminate or reform processes that did not add value while embracing the proven ERP processes.

### **Achievements**

Upon implementation, DFAS joined 27 Other Defense Organizations on the Defense Agencies Initiative (DAI). DFAS is the first large scale Department of Defense Working Capital Fund (WCF) using the DAI ERP platform transitioning day-to-day operations with little interruption. Timekeeping operations commenced in June 2022 with no disruptions in employee pay processing. On October 1, 2022, DFAS began the arduous task of converting transactional data to DAI and began processing fiscal year (FY) 2023 transactions on October 25, 2022. DFAS found success within the first three months of operating in DAI to include key operating and performance measures at or below legacy levels.

ERP implementation is an incredibly risky endeavor. DFAS went through it in an entirely remote environment as the first true 100% WCF in the system. Being the first full WCF posed new requirements that the Defense Logistics Agency Program Management Office had not experienced previously as all other agencies were primarily funded through General Funds (GF). One such challenge was a significant difference in the funding mechanism. As a WCF, DFAS does not receive appropriated dollars, rather receives its funding through the receipt of orders from the Military Departments and Other Defense Agencies. This presented a unique challenge in how DFAS records its budget within DAI. Spending controls operate differently than with appropriated funds. As expected, we worked to remedy this challenge and excelled.

### **Streamlined Operations and Enhanced Efficiencies**

Prior to the DAI ERP implementation, DFAS faced operational inefficiencies due to fragmented processes, disparate systems, and manual data entry. The implementation streamlined various business functions, integrating them into a cohesive platform. This has resulted in automated workflows, reduced duplication of efforts, and improved overall efficiency. With real-time access to data, decision-makers can make informed choices promptly, leading to quicker response times and optimized resource allocation.

As we understand more about the new ERP system, DFAS intends to run Robotic Process Automation (RPA) in the coming years. With this cutting edge technology, DFAS will then be able to execute automation and alleviate individuals to focus on other important workloads like audit,

fund balance with treasury, and delivering top of the line customer service.

### **Seamless Cross-Departmental Collaboration**

The DAI implementation acted as a catalyst for improved collaboration across departments. Dismantling silos that once hindered communication, teams now find themselves working together effortlessly. The DAI system facilitates information sharing through system interfaces and workflows, enabling financial managers, resource managers, and customer service teams to align their efforts. This synergy has led to better customer experiences, timely process completion, and reduced rework.

In an effort to enhance collaboration, DAI feeds our WCF data into ADVANA. ADVANA is a central repository tool created by the Office of the Secretary of Defense (OSD). With the ability to have all information in one collective tool, the possibilities for streamlining business are endless. Furthermore, DAI now provides DFAS with Oracle Analytics Server (OAS), a querying tool that generates real-time data reports. These reports help produce accurate reconciliations, universe of transactions (UoTs), and aid in variance analysis.

### **Audit**

In the world of financial checks and balances, having an unmodified financial statement audit opinion in the Department of Defense is a significant task, but even more daunting after implementing an entirely new financial management software system. This process involved careful planning, system testing, and a review of all financial controls to ensure our audit for FY 2023 would go smoothly.



DFAS has implemented Complimentary User Entity Controls (CUECs) related to access controls, strengthening reliance on the DAI SOC 1. These CUECs are critical to ensuring DFAS has a strong control environment that compliments the existing, audited DAI system control environment. To accomplish this task, DFAS developed procedures related to access control, followed DFAS and DAI best practice standards, and implemented Federal Information System Controls Audit Manual (FIS-CAM) testing around these controls for monitoring. Having effective CUECs in place allows the IPA firm to rely on DAIs SOC 1 report; reducing the amount of testing necessary for the IT side of the audit.

As part of our strategy for continued success, DFAS executed a project to update all process documentation to include process maps, process narratives, and desktop guides. The team then conducted an internal mock audit to create a universe of transactions for all categories and conduct sample testing prior to the external IPA audit to identify potential areas of concern. DFAS endlessly prepared to ensure this system transition would go smoothly; and it did!

With all four phases of the audit complete, DFAS is able to announce its 24th consecutive unmodified financial statement audit opinion. Our team of teams endlessly prepared for this financial statement opinion. We have been busy optimizing our processes and remediating challenges to ensure audit success.

### **Scalability for Future Growth**

The success of the DAI implementation laid a solid foundation for DFAS's future growth within the system architecture. The modular nature of the ERP system allows the Agency to add new functionalities as needed. One such endeavor is the DFAS "budget of the future" vision, where budget formulation, spend planning, and execution analysis are seamlessly integrated into the same cohesive platform. This will drive further efficiencies and reduce offline legacy processes. As DFAS continues to upgrade and utilize functionality of the ERP, we continue to dismantle barriers and succeed. The future of our financial success is bright!



**Members of Defense Finance and Accounting Service arrived on site to be recognized by Mr. Tony Hullinger, Deputy Director for Strategy and Support, for their efforts in transitioning DFAS to the Defense Agency Initiative timekeeping format, June 13, 2023 at DFAS Indianapolis. (DoD photo by Darrell Sydnor, DFAS Corporate Communications)**

# MANAGEMENT ASSURANCES



**DEFENSE FINANCE AND ACCOUNTING SERVICE****8899 EAST 56<sup>TH</sup> STREET  
INDIANAPOLIS, IN 46249-0201**

MEMORANDUM FOR THE OFFICE OF THE UNDER SECRETARY OF DEFENSE  
(COMPTROLLER) (OUSD(C))/DEPUTY CHIEF FINANCIAL  
OFFICER (DCFO)

SUBJECT: Annual Statement of Assurance (SoA) Required Under the Federal Managers'  
Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2023

As the Director of the Defense Finance and Accounting Service (DFAS), I recognize DFAS is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. Our SoA provides specific information on how the assessment of internal controls was conducted in accordance with the Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and the Government Accountability Office (GAO) Green Book, GAO-14-704G, Standards for Internal Control in the Federal Government. Based on the results of the assessment, DFAS can provide assurance that internal controls over operations, reporting, and compliance are operating effectively, with the exception of one material weakness in Financial Reporting related to the Agency's service provider operations as of September 30, 2023.

DFAS conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around Security Assistance Accounts (SAA) activities. I am able to provide assurance that internal controls over DFAS' operations and compliance are operating effectively, with the exception of one material weakness in Financial Reporting related to the Agency's service provider operations.

DFAS conducted its assessment of the effectiveness of internal controls over reporting, including internal and external financial reporting, in accordance with OMB Circular No. A-123, Appendix A. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on this assessment, I am able to provide reasonable assurance that internal controls over reporting, including internal and external reporting, and compliance are operating effectively.

DFAS conducted an internal review of the effectiveness of internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on the results of this evaluation, I am able to provide reasonable assurance that internal controls over financial systems are in compliance with FMFIA, Section 4, Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D.

DFAS also conducted an assessment of entity level controls including fraud control in accordance with the GAO Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. The *“Internal Control Evaluation (TAB A)”* section and the *“Assessment of Entity Level Controls (TAB B)”* section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on the results of this assessment, I am able to provide reasonable assurance that entity-level controls including fraud controls are operating effectively.

DFAS is hereby reporting that no Anti-Deficiency Act (ADA) violation has been identified during our assessments of the applicable processes.

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USS Mount Whitney prepares to move into formation during exercise Baltic Operations 2023 in the Baltic Sea June 4, 2023. BALTOPS23 is the premier maritime-focused exercise in the Baltic Region. The exercise, led by U.S. Naval Forces Europe-Africa and executed by Naval Striking and Support Forces NATO provides a unique training opportunity to strengthen the combined response capability critical to preserving the freedom of navigation and security in the Baltic Sea. (U.S. Marine Corps photo by Staff Sgt. Shawn P Coover)



# COMPLIANCE AND REGULATIONS



DFAS management is responsible for compliance with existing laws and regulations related to financial reporting. DFAS did not identify any instances of non-compliance during FY 2023. The following describes specific compliance assertions and efforts taken by DFAS management to maintain compliance applicable to DFAS Financial Reporting.

### **Federal Financial Management Improvement Act of 1996**

DFAS conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Based on the results of this assessment, as of June 30, 2023, the internal controls over the integrated financial management systems utilized in the compilation of the DFAS financial statements, were in compliance with OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.

### **Antideficiency Act**

Section 1341, Title 31, United States Code (31 U.S.C. 1341 [1990]) limits DFAS and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, DFAS and its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C. 1517 (2004), DFAS and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and

Congress all relevant facts and a statement of actions taken. The DFAS 7040.1-1, DFAS Financial Management Instruction, Enclosure 14, provides agency policy for investigating and reporting ADA violations. During FY 2023, DFAS has no ADA violations to report.

### **Debt Collection Improvement Act of 1996**

Public Law 104-134 Debt Collection Improvement Act of 1996 (Updated April 30, 1999) is legislation that provides an opportunity for the Federal Government to move toward its goal of increased electronic commerce and improved cash and debt collection management. The Act enhances debt collection government-wide, and mandates the use of electronic funds transfer for federal payments, allows Federal Reserve Bank Treasury Check Offset, and provides funding for the Check Forgery Insurance Fund. The law provides that any non-tax debt or claim owed to the United States that has been delinquent for a period of 120 days shall be turned over to the Secretary of the Treasury for appropriate action to collect or terminate collection actions on the debt or claim. Debt that is in litigation or foreclosure, with a collection agency or a designated federal debt collection center, or that will be disposed of under an assetsales program, is exempt from transfer to the Secretary of the Treasury. DFAS implemented debt management controls to meet the requirements of the DCIA, OMB Circular No. A-129, Policies For Federal Credit Programs and Non-Taxable Receivables and other laws as applicable, including:

- Treasury Offset Program Referral of debts more than 120 days delinquent;
- Write-offs of delinquent debt older than two years;



- 1099-C Reporting when closing out debts; and
- Credit Bureau Reporting of delinquent non-tax, out-of-service debts.

### **Government Charge Card Abuse Prevention Act**

The Government Charge Card Abuse Prevention Act (Public Law 112-194) requires all federal agencies to establish safeguards and internal controls for government charge card programs and establish penalties for violations. DFAS is in compliance with the current requirements of PL 112-194 for both the Government Purchase Card and Government Travel Charge Card Programs.

### **Prompt Payment Act**

The Prompt Payment Act (codified as amended in 31 U.S.C. 3901-3907) ensures federal agencies pay vendors in a timely manner. Prompt Payment ((5 Code of Federal Regulation [CFR] 1315), formerly OMB Circular A-125, Prompt Payment) requires DFAS to pay commercial obligations within certain periods and to pay interest penalties when payments are late. In compliance with the Statute, DFAS paid \$31,000 of Prompt Payment Interest penalties during FY 2023.

### **Improper Payments Elimination and Recovery Improvement Act of 2012**

The Improper Payments Elimination and Recovery Improvement Act of 2012 (31 U.S.C 3321 note) requires federal agencies to review spending to identify, prevent, and report improper payments to reduce error, waste, fraud, and abuse within federal spending. This requirement is done not by DFAS WCF but by DFAS, the service provider. DFAS, the service provider, handles reporting DoD-wide for all components to include DFAS WCF.

### **Fraud Reduction and Data Analytics Act of 2015**

DFAS implemented the required financial and administrative controls for the fraud risk principle in the Standards for Internal Control in the Federal Government (also known as the "GAO Green Book"), and OMB Circular A-123. DFAS implementation included: leading practices for managing fraud risk; identifying risks and vulnerabilities to fraud, including with respect to payroll, beneficiary payments, large contracts, and purchase and travel cards; and establishing strategies, procedures, and other steps to curb fraud.

### **Audit Disclosures**

During FY 2023, auditor-identified findings were classified as a significant deficiency in internal controls in the external audit report. This finding had other controls in place to prevent material financial impact to DFAS WCF.

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# FINANCIAL DISCUSSION AND ANALYSIS





A paratrooper descends at the Alzey Drop Zone after a jump off a C-130 Hercules Dec. 16, 2022. The multinational operation allows the service members to familiarize themselves with each other's equipment. (U.S. Army photo by Volker Ramspott)

***DFAS continues to provide financial and accounting services at the lowest cost possible. The Agency plans its revenue and expenses based primarily on the estimated amount of services our customers will require in the future. In order to assist the DoD in its budgeting process, the Agency's budgeted rates are established two fiscal years in advance. Due to forecasting future budgeted rates, fluctuations in customer demand for services have a direct and significant effect on DFAS' financial performance as a result of utilizing a predominantly labor-based expense structure.***

The performance of the Agency can be measured by the Net Cost of Operations which is the difference between expenses and revenue for the year. The Net Position measures the Agency's budgetary health since inception.

<b>Fiscal Years Ended September 30</b>	<b>2023</b>	<b>2022</b>
Net Cost of Operations	\$ 95,627,380	\$ 84,763,152
Net Position	\$ 235,886,331	\$ 226,059,606

## Significant Events

In FY 2023, DFAS transitioned from e-Biz Financials to DAI (Defense Agencies Initiative), which provides the basis for an integrated, enterprise-level solution for all defense agencies. The full financial and accounting implementation went into production in October 2022. With the benefit of this Enterprise Resource Planning (ERP) toolset, DFAS has excelled with obtaining better control of its resources, producing a higher standard in the execution of its budgetary resources, and providing exceedingly accurate, reliable and relevant information on the audited financial statements. Overall, DFAS transitioned with no material impact to their budget execution reports and financial statements from this accounting system change.

## Financial Statement Analysis

DFAS WCF continues a thorough monthly review process and robust execution reporting to senior leadership in order to outline the status of its financial position and available budgetary resources. Consequently, DFAS leadership is armed with proprietary and budgetary information to make informed business decisions throughout the year in order to manage the DFAS-WCF unobligated balance. The Office of the Under Secretary of Defense, (Comptroller) (OUSD(C)) and the Office of Management and Budget (OMB) are updated quarterly during budget execution reviews. As a result, DFAS stakeholders are provided timely information regarding the current and anticipated DFAS status of budgetary resources in order to evaluate the performance of the organization.

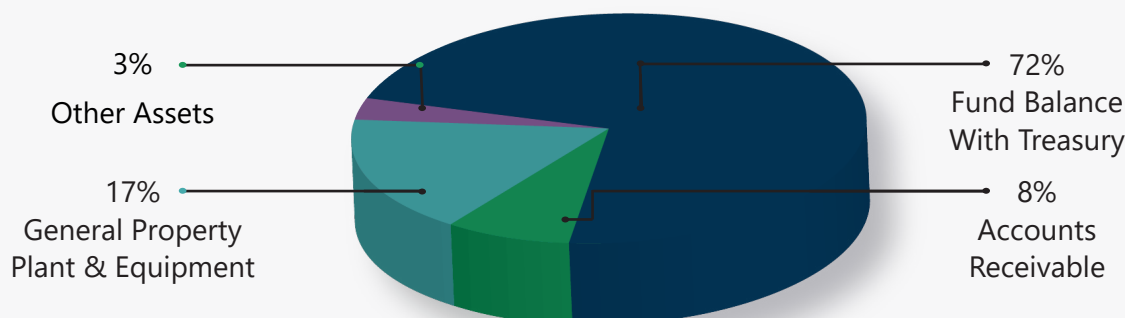


## Balance Sheet

The Balance Sheet reflects DFAS' financial position as of September 30, 2023, and details amounts available to provide future economic benefits (assets), owned or available for use by DFAS, compared to the amounts owed (liabilities), requiring the use of available assets, and the difference between them (net position). The table below summarizes the fluctuations in the Balance Sheets from FY 2022 to FY 2023.

As of September 30	2023	2022	Change	% Change
Assets	\$ 412,461,058	\$ 381,831,008	(30,630,050)	(8.0%)
Liabilities	\$ 176,574,727	\$ 155,771,402	(20,803,325)	(13.4%)
<b>Net Position</b>	<b>\$ 235,886,331</b>	<b>\$ 226,059,606</b>	<b>\$ (9,826,725)</b>	<b>(4.3%)</b>

## Composition of Assets



Total WCF Assets of \$412,461,058 million on September 30, 2023 consisted primarily of \$296.5 million in FBWT, and \$71.8 million in General Property, Plant, and Equipment (PP&E).

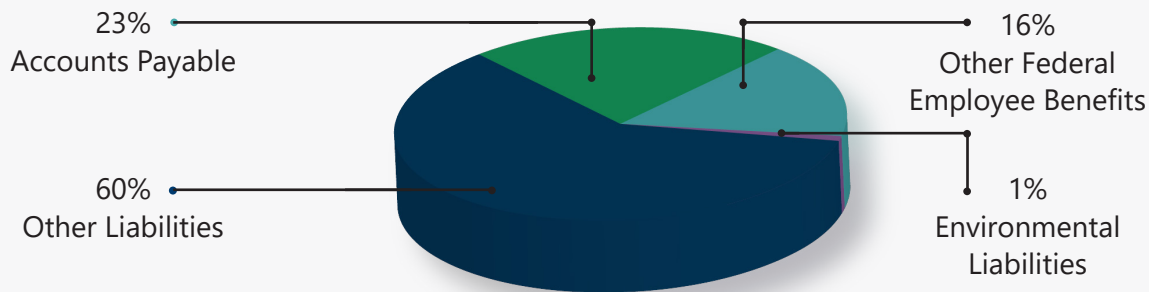
Fund Balance with Treasury (FBWT) increased by \$25.5 million (9.4%) in fiscal year (FY) 2023 when compared to FY 2022. The increase is primarily due to the FY 2023 budget revenue and billing rates set at a higher level than FY 2022. In order to recover \$20.9M in prior year losses. This resulted in an increase in customer reimbursement of \$62.7 million at the conclusion of Q4 FY 2023 compared to Q4 FY 2022.

Accounts Receivable increased by \$20.9 million (167.2%) in Q4 FY 2023 when compared to Q4 FY 2022. This increase is primarily due to outstanding accounts receivable balance of \$8.6 million for Air Force and \$6.3 million for Defense Security Cooperation Agency.

General Property, Plant, and Equipment decreased by \$19.9 million (21.8%) in Q4 FY 2023 when compared to Q4 FY 2022. The overall downward trend continued where new acquisitions are decreasing while accumulated depreciation remains consistent.

Advances and Prepayments (Non-Federal) increased by \$2.5 million (45.1%) in Q4 FY 2023 when compared to Q4 FY 2022. This increase is primarily due to an increase in software licenses which were prepaid in full due to a system limitation resulting in an overstatement in equipment compared to Q4 FY 2022.

### Composition of Liabilities



Total Liabilities of \$176.6 million as of September 30, 2023, primarily consists of Other Liabilities for \$104.9 million, Accounts Payable for \$42.0 million, Other federal employment benefits for \$29.3 million, and Environmental Liabilities for \$434.0 thousand.

Accounts Payable (Non-Federal) increased by \$7.4 million (39.7%) in Q4 FY 2023 when compared to Q4 FY 2022. The increase in Accounts Payable (AP) is primarily due to the outstanding in Employee Benefits balance of \$1.2 million, in the ELAN Professional Support Services and infrastructure contracts of \$3.3 million and increase in the DISA system hosting cost of \$0.9 million.

Federal employee and veteran benefits (non-federal) increased by \$4.3 million (17.2%) in Q4 FY 2023 when compared to Q4 FY 2022. This increase is primarily due to higher labor costs for pay inflation (employee compensation, awards, and benefit contributions) and increased end strength in Q4 FY 2023 of 10,962 compared to 10,808 in Q4 FY 2022.

Other liabilities (non-federal) increased by \$11.2 million (13.2%) in Q4 FY 2023 when compared to Q4 FY 2022. This increase is primarily due to higher labor costs for pay inflation related to accrual balances. Another contributing factor is the inclusion of fringe benefit costs of \$5.4 million for the Accrued Annual Leave adjustment in DAI for FY 2023.

## Statement of Net Cost

The Statement of Net Cost presents the annual cost of operations for DFAS. The net cost of DFAS' operations equals the program's gross cost less revenue earned from external sources for services provided to the Military Services and other Defense Agencies. The table below illustrates the changes in costs and revenues.

<b>Fiscal Years Ended September 30</b>	<b>2023</b>	<b>2022</b>	<b>Change</b>	<b>% Change</b>
Gross Costs	\$ 1,660,551,499	\$ 1,534,495,206	\$ 126,056,293	8.2%
Less Earned Revenue	(1,564,924,119)	(1,449,732,054)	115,192,065	7.9%
<b>Net Cost of Operations</b>	<b>\$ 95,627,380</b>	<b>\$ 84,763,152</b>	<b>\$ 10,864,228</b>	<b>12.8%</b>

Gross Costs increased by \$126.1 million (8.2%) in Q4 FY 2023 when compared to Q4 FY 2022. The increase in Gross Costs is primarily due to higher labor costs for pay inflation (employee compensation, awards, and benefit contributions) and increased end strength in Q4 FY 2023 of 10,962 compared to Q4 FY 2022 of 10,808.

Earned Revenue increased by \$115.2 million (7.9%) in Q4 FY 2023 when compared to Q4 FY 2022. The increase is primarily due to the FY 2023 budgeted revenue and billing rates were set at a higher level than FY 2022 in order to recover \$20.9 million in prior year losses.

Net Cost of Operations increased by \$10.8 million (12.8%) in Q4 FY 2023 when compared to Q4 FY 2022. The increase is primarily due to an increase in Gross Costs of \$126.1 million. Gross Costs primarily increased due to higher labor costs for pay inflation (employee compensation, awards, and benefit contributions) and increased end strength in Q4 FY 2023 of 10,962 compared to FY 2022 of 10,808. The increase in Gross Costs is partially offset by a \$115.2 million increase in Earned Revenue due to higher billing rates in FY 2023 compared to FY 2022.

Gross Costs by Category	2023	2022	Change	% Change
Payroll Expense	\$ 876,650,426	\$ 809,161,937	\$ 67,488,489	8.3%
Employee Benefits Expense	348,690,961	312,983,304	35,707,657	11.4%
Contractor Services	204,900,993	198,603,618	6,297,375	3.2%
Imputed Costs	109,246,060	79,734,798	29,511,262	37.0%
Equipment Expense	66,627,630	63,928,850	2,698,780	4.2%
Lease & Office Expenses	40,061,437	44,225,312	(4,163,875)	(9.4%)
Depreciation & Amortization	22,699,061	26,838,484	(4,139,423)	(15.4%)
Miscellaneous Supplies and Materials	1,438,441	1,672,056	(233,615)	(14.0%)
Travel Expense	3,880,437	1,767,300	2,113,137	119.6%
Loss on Disposition of Assets	0	0	(698,038)	(100.0%)
PPA Interest Expense	81,069	(55,648)	136,717	245.7%
Bad Debt Expenses	(78,900)	(3,561)	(75,339)	2115.7%
Other Expenses	(13,646,116)	(4,361,244)	(9,284,872)	212.9%
<b>Total</b>	<b>\$ 1,660,551,499</b>	<b>\$ 1,534,495,206</b>	<b>126,056,293</b>	<b>8.2%</b>

### Financial Statement Preface

Based upon timely information and a proactive approach, DFAS produces accurate and timely financial statements. These statements have been prepared to report the overall financial position and results of operations of the Agency pursuant to the requirements of Title 31, United States Code, Section 3515 (b), to include:

1. Balance Sheets
2. Statements of Net Cost
3. Statements of Changes in Net Position
4. Statements of Budgetary Resources

The financial statements and notes are prepared in accordance with federal accounting standards using generally accepted accounting principles and audited by our independent auditor Williams, Adley & Company-DC, LLP.



## Statement of Changes in Net Position

The Statement of Changes in Net Position presents the cumulative results of operations since inception. The statement focuses on how the net cost of operations is financed; as well as other items financing the Agency's operations. The resulting financial position represents the difference between assets and liabilities as shown on the Balance Sheets. Various financing sources can increase the net position, including transfers of cash, property, and imputed financing costs absorbed by other Federal agencies on DFAS' behalf.

<b>Fiscal Years Ended September 30</b>	<b>2023</b>	<b>2022</b>	<b>Change</b>	<b>% Change</b>
Beginning Balances	\$ 226,059,606	\$ 231,453,233	\$ (5,393,627)	(2.3%)
Total Financing Sources	105,454,105	79,369,525	26,084,580	32.9%
Less Net Cost of Operations	(95,627,380)	(84,763,152)	10,864,228	12.8%
<b>Cumulative Results of Operations</b>	<b>\$ 235,886,331</b>	<b>\$ 226,059,606</b>	<b>\$ 9,826,725</b>	<b>4.3%</b>

## Statement of Budgetary Resources

The Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2023, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. It is the only financial statement exclusively derived from the budgetary general ledger in accordance with budgetary accounting rules. As part of the Defense-wide WCF, DFAS's budgetary resources are generated by collecting funds from customers in exchange for providing accounting and financial services.

Fiscal Years Ended September 30	2023	2022	Change	% Change
Gross Outlays	\$ 1,516,796,610	\$ 1,485,218,564	\$ 31,578,046	2.1%
Less Actual Offsetting Collections	\$ (1,542,270,953)	\$ (1,479,565,454)	\$ 62,705,499	4.2%
<b>Net Outlays</b>	<b>\$ (25,474,343)</b>	<b>\$ 5,653,110</b>	<b>\$ (31,127,453)</b>	<b>(550.6%)</b>

Net Outlays decreased by \$31.1 million (550.6%). The decrease is primarily due to a delay in payroll disbursements during the month of September 2023

Offsetting Collections increased by \$62.7 million (4.2%). The increase is primarily due to the FY 2023 budget revenue and billing rates set at a higher level than FY 2022 in order to recover \$20.9M in prior year losses. This resulted in an increase in customer reimbursement of \$62.7 million at the conclusion of Q4 FY 2023 compared to Q4 FY 2022.

Section II  
FINANCIALS

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

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INDEPENDENT AUDITOR'S REPORT ON THE  
FINANCIAL STATEMENTS

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MANAGEMENT'S RESPONSE TO THE INDEPENDENT  
AUDITOR'S REPORT

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COMPARATIVE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

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# CFO'S MESSAGE



ROSALIE W. TINSLEY

*Rosalie Tinsley*





# MESSAGE FROM THE CFO

It is my privilege to present the Defense Finance and Accounting Service (DFAS) Working Capital Fund (WCF) fiscal year (FY) 2023 financial statements. This is an important time for Department financial managers, as each of us examine the financial complexities that help secure the foundation of our national security and resilience while concurrently demonstrating our commitment to excellence.

We reflect on the Agency's 24th consecutive unmodified audit opinion under our newly implemented Defense Agencies Initiative (DAI) Enterprise Resource Planning (ERP) system. This significant accomplishment reaffirms our dedication to accountability and transparency, as well as our unwavering pledge to maintaining the highest standards of financial stewardship. It is a testament to the collective diligence of our teams, partners, and customers.

A cornerstone of our collaboration emerged through the DAI ERP system conversion with DFAS becoming one of 27 Agencies to standardize and streamline financial reporting. The technologically advanced capability empowers DFAS and other DAI users to navigate the challenges of financial management with improved efficiency and precision. In addition to our transition to DAI, our team also experienced the transition to multiple Advancing Analytics (Advana) capabilities. Advana is leveraged across the Department for multiple purposes. Its financial data analytics platform is an instrumental, evolving central repository for research, and serves as the source for our universe of transactions. As Advana's toolset matures, it is providing an increasingly efficient manner to ensure DFAS financial information is complete and accurate.

As in past years, our approach to delivering our mission is enhanced by the vigor and innovation fortified through our four strategic priorities. Each priority represents the building blocks we use to support the overarching National Defense Strategy, linking our pursuit of fiscal excellence. We had a successful year driving transformative results by focusing on these four critical areas: Strengthening Customer Partnerships, Enhancing Performance, Modernizing the Business Environment, and Investing in People; resulting in many important outcomes including retiring legacy systems, enhancing our artificial intelligence and robotic capabilities, and implementing a robust training plan for upskilling information technology.

As we delve into the comparative financial statements, we recognize that every figure, every calculation, and every strategic choice is an incremental contributor to our Department and national interests. Our collaborative partnerships, as highlighted in our Management's Discussion and Analysis, also align our financial reporting for DFAS as a shared service provider, supporting its Department of Defense and federal space customers.

Reflecting on the fiscal year we recently concluded, and as we begin Fiscal Year 2024, we extend our gratitude for the opportunity for many stakeholders who joined us on this journey of financial transition and maturity. Together, we continue to invest in collaborative technologies focused on realizing efficiencies, allowing us to overcome inflationary cost increases. We are invested today and tomorrow in delivering first-class service while leading our customers in finance and accounting services.

# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS







U.S. Marine Corps Pfc. Justin O'Neal, a team leader and Lance Cpl. Ignacio Aguinaga, a machine gunner with 2nd Battalion, 5th Marine Regiment, 1st Marine Division, fire a M2A1 .50-caliber machine gun during a littoral live fire exercise for Marine Aviation Support Activity 23 at Punta Baja, Palawan, Philippines, July 15, 2023. MASA 23 is a bilateral exercise between the Armed Forces of the Philippines and the U.S. Marine Corps, aimed at enhancing interoperability and coordination in support of U.S.-Philippine mutual defense. (U.S. Marine Corps photo by Lance Cpl. Juan Torres)





### Independent Auditor's Report

Director, Defense Finance and Accounting Service  
Chair, Defense Finance and Accounting Service Audit Committee

In our audits of the fiscal years 2023 and 2022 financial statements of the Working Capital Fund (WCF) of the Defense Finance and Accounting Service (DFAS), a component of the United States Department of Defense (DoD), we found:

- the DFAS WCF's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed<sup>1</sup>; and
- no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes other matters paragraphs related to the required supplementary information (RSI)<sup>2</sup> and other information included with the financial statements<sup>3</sup>; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

### Report on the Financial Statements

#### Opinion

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, we have audited the DFAS WCF's financial statements. The DFAS WCF's financial statements comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. In our opinion, the DFAS WCF's financial statements

<sup>1</sup> A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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. 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.

<sup>2</sup> The RSI consists of Management's Discussion and Analysis inclusive of the Financial Discussion and Analysis which are included with the financial statements.

<sup>3</sup> Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants/ Management Consultants*

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present fairly, in all material respects, the DFAS WCF's financial position as of September 30, 2023, and 2022, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DFAS WCF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Responsibilities of Management for the Financial Statements

DFAS WCF management is responsible for:

- the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in the DFAS WCF's Agency Financial Report (AFR), and ensuring the consistency of that information with the audited financial statements and the RSI; and
- designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such

procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DFAS WCF's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

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

#### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI, because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

#### Other Information

The DFAS WCF's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for the purpose of additional analysis, and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in the DFAS WCF's AFR. The other information is comprised of the Message from the Director, historical information, and the Message from Chief Financial Officer, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

### **Report on Internal Control over Financial Reporting**

In connection with our audits of the DFAS WCF's financial statements, we considered DFAS WCF's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

#### **Results of Our Consideration of Internal Control over Financial Reporting**

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies<sup>4</sup> or to express an opinion on the effectiveness of the DFAS WCF's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. As discussed in *Appendix I*, our audit identified a deficiency in controls over the Fund Balance with Treasury (FBwT) process, that represents a significant deficiency in internal control over financial reporting. We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on the DFAS WCF's fiscal year 2023 financial statements.

Although, the significant deficiency in internal control did not affect our opinion on DFAS WCF's fiscal year 2023 financial statements, misstatements may occur in unaudited financial information reported internally and externally by DFAS because of this significant deficiency. However, material weaknesses or other significant deficiencies may exist that have not been identified.

In addition to the significant deficiency over FBwT mentioned above, we identified a deficiency in the DFAS WCF's internal control over financial reporting that we do not consider to be a material weakness or significant deficiency. Nonetheless, this deficiency requires the DFAS WCF management's attention. We have communicated this matter to the DFAS WCF's management and will report on it separately.

#### **Basis for Results of Our Consideration of Internal Control over Financial Reporting**

We performed our procedures related to the DFAS WCF's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance<sup>5</sup>.

#### **Responsibilities of Management for Internal Control over Financial Reporting**

The DFAS WCF management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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<sup>4</sup> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>5</sup> Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, issued on October 19, 2023. According to the guidance, for those controls that have been suitably designed and implemented, the auditor should perform sufficient tests of such controls to conclude on whether the controls are operating effectively (i.e., sufficient tests of controls to support a low level of assessed control risk). OMB audit guidance does not require the auditor to express an opinion on the effectiveness of internal control.

#### Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of the DFAS WCF's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with U.S. generally accepted government auditing standards, we considered the DFAS WCF's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DFAS WCF's internal control over financial reporting. Accordingly, we do not express an opinion on the DFAS WCF's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

#### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that:

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

#### Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the DFAS WCF's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the DFAS WCF's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

#### **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

In connection with our audits of the DFAS WCF's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

#### Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2023 that would be reportable under U.S. generally accepted government auditing standards. However, the objective



of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the DFAS WCF. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

The DFAS WCF management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the DFAS WCF.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the DFAS WCF that have a direct effect on the determination of material amounts and disclosures in the DFAS WCF's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DFAS WCF. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

**Agency Comments**

In commenting on a draft of this report, DFAS WCF's management provided a response, which is presented in *Appendix II*. We did not audit DFAS WCF's response and, accordingly, we express no opinion on the response.

*Williams, Arley & Company, PC, LLP*

Washington, District of Columbia  
November 06, 2023

## Appendix I – Current Year Deficiency

### 23-01: FBwT System and Process Deficiencies

#### Condition:

As of October 1, 2022 DFAS implemented two new systems, Defense Agencies Initiative (DAI) replacing e-Biz and Advancing Analytics (Advana) replacing Department 97 Report Reconciliation Tool (DRRT). DFAS had well established processes and procedures related to preparing, supporting and approving the Fund Balance with Treasury (FBwT) reconciliations up until the implementation of these two new systems. With these new systems, the processes needed to change and evolve. However, the documentation and processes needed to support the auditability of the reconciliations in the new systems environment were not sufficiently established through most of FY 2023. Accordingly, for 10 months of fiscal year 2023 DFAS did not perform complete and effective FBwT reconciliations with detailed reconciling items available for audit. Therefore, we were unable to place reliance on DFAS processes related to FBwT and accordingly, extensive audit procedures had to be performed to determine the reasonableness of the FBwT balance at September 30, 2023. This matter is more fully discussed below.

#### Fund Balance with Treasury Reconciliation Process

During the FY 2023 Internal Control and Interim Substantive Phases testing of FBwT Reconciliations, we determined that complete and effective reconciliations were not performed. For the months tested, October 2022 and March 2023, reconciling differences between the DFAS general ledger and the TI-97 Cash Management Report (CMR) were not supported by detailed voucher-level transactions. Additionally, DFAS performed adjustments for undistributed disbursements and collections, that were not supported by a complete population of reconciling items. Advana could not provide the historical detailed transactions, and DFAS had not appropriately planned for the audit needs. The net credit adjustments to FBwT totaled \$(3,915,399) in October 2022 and \$(43,169,895)<sup>6</sup> in March 2023.

Beginning with the August 2023 reconciliation and subsequent to our interim NFR, DFAS implemented process and system changes within Advana. This allowed DFAS to perform a complete and effective reconciliation for that month. Accordingly, we tested and determined that the August 2023 reconciliation was properly performed and supported, and the undistributed disbursements and collections adjustment was supported by a complete population of reconciling items.

The Undistributed Universe of Transactions (UoT) Report was part of implemented process changes beginning in August 2023 and tested during the Year End Substantive Phase. This report is an Advana tool used to document the complete population of FBwT reconciling differences. However, as currently functioning, the report includes records that represent false (net-zero) variances. These false variances were not readily identifiable from true variances and had to be specifically identified by DFAS. Also, several false variances resulted from Advana system limitations that would not allow for proper matching. As indicated below the bulk of the variances were false variances that required additional efforts by DFAS personnel:

<sup>6</sup> DFAS reported payroll disbursements in transit totaling \$45,675,736 accounted for most of the recorded March 2023 undistributed adjustment amount.

**Appendix I – Current Year Deficiency**

Level 3 Variance Type	Dollar Value	Record Count
True	\$(254,459)	373
False	\$50,557,878 <sup>7</sup>	622

Also, the August reconciliation was not completed with detailed reconciling items until October 12, 2023, because the Undistributed UoT Report and voucher level population of variances were outstanding until this date.

For the September 30, 2023 FBwT line item balance, DFAS relied on the calculated undistributed amount journal entry resulting from the CMR. DFAS will not have the September Undistributed UoT Report and voucher level population of complete FBwT reconciling differences from Advana available until November 17, 2023, which is after the final report due date of November 6, 2023. Consequently, to ensure that FBwT is fairly stated as of September 30, 2023, WA resorted to substantial alternative procedures that included:

1. Examining the August 2023 FBwT reconciliation and the supporting details.
2. Obtaining the September Undistributed Journal Voucher and validating the accuracy of the calculation.
3. Performing analytics on the amount of payroll disbursement in transit included in the September Undistributed amount.
4. Analyzing the population of September 2023 disbursements and collections that would result in the change in FBwT from August to September and selecting a sample of material collections to perform detailed substantive testing.
5. Relying on control testing over cash disbursements and receipts performed during prior phases of the audit.

**Compliance with FMR**

During the FY 2023 Internal Control and Interim Substantive Phases, we conducted testing of FBwT reconciling items identified by the Advana platform.

- a. Of the 10 samples tested in the Internal Control Phase, nine (9) samples totaling \$1,710,631 (absolute value) were not cleared within the 60 business days, as required by the FMR.
- b. Of the 20 samples tested in the Interim Substantive Phase, 14 samples totaling \$20,814,666 (absolute value) were not cleared within 60 business days. Additionally, two (2) samples were transactions included in a write-off performed in 2019 of variances from 2012 and prior, and as such were not accurately identified by DFAS as false variances.

**Cause:**

In FY 2023, DFAS transitioned from the DRRT to Advana for the purposes of reconciling FBwT and identifying and resolving variances. The Advana platform and associated processes were implemented with the below described limitations.

<sup>7</sup> The \$50,557,878 dollar value is tied to 46 records, which net to zero with an offsetting variance summarized in a separate Undistributed UoT level. The remaining 576 false variances net to zero within Undistributed UoT Level 3.

### Appendix I – Current Year Deficiency

- The Advana Undistributed UoT tool did not initially support historical point-in-time reporting, a function needed to reconcile detailed variances with calculated undistributed amounts. Though historical reporting was ultimately implemented, the data needed to perform a complete reconciliation of FBwT each month is not available in Advana until at least the 20<sup>th</sup> day of the following month.
- Advana system logic issues have contributed to the significant volume of false variances documented in the Undistributed UoT Report. For instance, in testing of the August 2023 FBwT Reconciliation, DFAS determined that Advana failed to recognize existing Treasury records related to G-Invoicing transactions. This resulted in false variances impacting multiple reconciliation levels.
- DFAS relies on manual identification and isolation of false variances caused by Advana system logic and thus it takes longer to resolve all variances. DFAS has submitted several system tickets to address the false variances that have been encountered.

In addition, resolution of FBwT variances at the voucher level demands substantial research and personnel hours. Due to the significant changes and new processes in FY 23, DFAS Management did not prioritize the FMR timeframe for clearing reconciling items. Also, the audit needs and interim process were not adequately defined and designed to provide assurances over the effectiveness of the reconciliation process.

#### Effect:

The Advana system limitations resulted in additional resources being required to research variances, an unnecessary volume of transactions in the Undistributed UoT, and decreased efficiency in FBwT processes. The inability to provide detailed reconciling variances created gaps in the internal control structure and increased the risk of errors and inaccurate variances.

The delayed availability of Undistributed UoT data in Advana prevents DFAS from performing detailed monthly reconciliations of FBwT in a timely manner. Reconciliations are not completed until over a month following the period being reconciled, in part due to the timing of data availability. Further delay is caused by the substantial number of false variances documented in the Undistributed UoT Reports. In August there were 622 false variances amounting to over \$50 million.

Manual processes performed to isolate these variances are time consuming and have resulted in the inaccurate classification of false variances as true reconciling differences between the DFAS general ledger and Treasury records. Also, because of the untimeliness of the Advana UoT, we were unable to test the September 2023 reconciliation as of the audit report date and were required to perform alternative procedures to ensure that the balance was fairly stated.

The failure to clear voucher level variances within 60 business days of the transaction date, increases the cumulative undistributed amount, which may result in a misstated FBwT balance.



**Appendix I – Current Year Deficiency****Criteria:**

Department of Defense Financial Management Regulation, Volume 4, Chapter 2, “*Accounting for Cash and Fund Balances with Treasury*”

**Fund Balance with Treasury Reconciliation****6.4 Recordation/Reconciliation of FBWT Transactions (020604)**

6.4.1. “Components must record all FBWT transactions in the individual activity accounts and must reconcile them to total monthly FBWT transactions reported by the Defense Finance and Accounting Service (DFAS)... As mentioned in subparagraph 020207.A, reconciliation is not complete until all differences are identified and aged, accountability is assigned, and differences are explained.”

**Table 2-4: FBWT Reconciliation Deadlines**

Complete FBWT reconciliation Deadline: “1-month (30 calendar days) following the end of the month being reconciled effective Fiscal Year 2021 (e.g., a reconciliation of October FBWT must be completed by November 30).”

**8.2 Reconciliation Roles and Responsibilities (020802)**

8.2.2. “DoD Components are responsible for:

8.2.2.4. Monitoring and approving the reconciliations performed by DFAS on their behalf. Ensuring all reconciling differences are supported by detail-voucher level transactions. Key supporting documents must be kept and provided as requested; include evidence of reconciliation performed and confirmation that all differences were successfully reconciled.”

**Advana Variances****8.3 Treasury Reconciliation Requirements (020803)**

“Treasury requires reconciling FBWT accounts to the Treasury reported amounts by Department, Period of Availability, and Main Account (i.e., TI, fiscal year, and fund symbol) monthly. During reconciliation, DFAS and their Component customers must:

8.3.5. Ensure differences recorded in Treasury budget clearing accounts (suspense accounts) are reconciled monthly as instructed in I TFM 2-5100, and moved to the appropriate LOA within 60 business days from the date of transaction.”

**Recommendation:**

We recommend that DFAS:

- a. Enhance policies and procedures for the resolution of false variances caused by Advana system logic issues. Policy should include (1) procedures for identification of a system logic issue and required backup documentation, (2) subsequent procedures to request a system change, including a required timeline for monitoring and

**Appendix I – Current Year Deficiency**

following up on the request and (3) retention of communication related to the system change request.

- b. Until Advana system changes discussed in Recommendation 1a are effective, explore whether resolution of false variances can be achieved through updates to source system data.
- c. Evaluate, implement, and request process changes, internally and with Advana, to effectively perform a complete<sup>8</sup> reconciliation within one-month (30 calendar days) following the end of the month being reconciled in compliance with the DoD FMR<sup>9</sup>.
- d. Prioritize and consider allocating additional resources to research and coordination with outside parties, as necessary, to clear variance categories associated with known FY 2023 DAI conversion issues.
- e. Pending Advana system changes to exclude the items from the population of variances, DFAS should prioritize the identification and isolation of all false variances, such as those included in the 2019 write-off of transactions from 2012 and prior.

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<sup>8</sup> Per DoD FMR, Volume 4, Chapter 2, Subparagraph 020207.A, "Reconciliation is not complete until all differences are identified and aged, accountability is assigned, and differences are explained."

<sup>9</sup> Per DoD FMR, Volume 4, Chapter 2, Table 2-4: FBWT Reconciliation Deadline

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# MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT





## Appendix II – Management’s Response



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
8899 EAST 56<sup>TH</sup> STREET  
INDIANAPOLIS, IN 46249-0201

November 6, 2023

Mr. Kola A. Isiaq, Engagement Partner  
Williams, Adley and Company, LLP-DC  
1030 15th Street NW, Suite 350 West  
Washington, DC 20005

Dear Mr. Isiaq:

I have reviewed the draft Independent Auditor’s Report dated November 2, 2023, regarding the Fiscal Year 2023 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. I am satisfied by the outcome and accept this report on behalf of DFAS.

I am very pleased to see we received an unmodified opinion on our first set of financial statements subsequent to implementing the Defense Agencies Initiative system. I appreciate the suggestions and opportunities to strengthen our control environment as we look to optimize our processes within our new system.

DFAS thanks the Williams Adley team for their professionalism while conducting this audit. If there are any additional requirements needed for completion, please contact my action officer, Mr. Jason Monday, at (317) 212-2674 or [james.j.monday.civ@mail.mil](mailto:james.j.monday.civ@mail.mil).

Sincerely,

A handwritten signature in black ink, reading "Audrey Y. Davis". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Audrey Y. Davis  
Director

## Appendix II – Management’s Response



DEPARTMENT OF THE ARMY  
U.S. ARMY AUDIT AGENCY  
OFFICE OF THE DEPUTY AUDITOR GENERAL  
ACQUISITION, CONTRACTING, SUPPLIES, AND MAINTENANCE AUDITS  
6000 6TH STREET, BUILDING 1464  
FORT BELVOIR, VA 22060-5609

SAAG-AXZ

November 6, 2023

Mr. Kola Isiaq  
Engagement Partner  
Williams, Adley and Company, LLP-DC  
1030 15<sup>th</sup> Street NW Suite 350 West  
Washington, DC 20005

Dear Mr. Isiaq:

I have received and reviewed a copy of the draft Independent Auditor’s Report for the Fiscal Year 2023 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. On behalf of DFAS, as the Chair of the Audit Committee, I have the highest regard for you and your staff and assurance of a thorough, objective assessment of the financial statements.

DFAS continues to work with determination to maintain an unmodified audit opinion. DFAS stays dedicated to continuously improving while maintaining high standards of accountability to ensure future audit success. Your staff’s thorough review of internal controls will guide DFAS to focus its efforts to reduce risk by implementing further enhancements based on your teams’ recommendations.

The outstanding collaboration between Williams Adley staff and DFAS has ensured another successful audit engagement with positive results.

Your staff’s unwavering professionalism and commitment are very much appreciated.

Sincerely,

TH.DAVID.PRA  
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Digitally signed by  
SMITH.DAVID.PRAEGER.11259696  
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Date: 2023.11.06 15:10:55 -05'00'

David Smith, Chair  
Defense Finance and Accounting Service  
Financial Statement Audit Committee

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# COMPARATIVE FINANCIAL STATEMENTS





**BALANCE SHEETS**

As of September 30, 2023 and 2022	2023	2022
<b>Assets</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 296,531,439	\$ 271,057,096
Accounts Receivable, Net (Note 3)	33,403,486	12,500,503
Other Assets	2,679,986	978,876
<b>Total Intragovernmental</b>	<b>\$ 332,614,911</b>	<b>\$ 284,536,475</b>
Other than Intragovernmental:		
Accounts Receivable, Net (Note 3)	\$ 181,676	\$ 135,052
General Property, Plant and Equipment, Net (Note 4)	71,761,878	91,711,507
Other Assets	7,902,593	5,447,974
<b>Total Other than Intragovernmental</b>	<b>\$ 79,846,147</b>	<b>\$ 97,294,533</b>
<b>Total Assets</b>	<b>\$ 412,461,058</b>	<b>\$ 381,831,008</b>
<b>Liabilities</b>		
Intragovernmental:		
Accounts Payable	\$ 15,839,731	\$ 17,145,538
Other Liabilities (Note 8)	9,075,402	9,996,817
<b>Total Intragovernmental</b>	<b>\$ 24,915,133</b>	<b>\$ 27,142,355</b>
Other than Intragovernmental:		
Accounts Payable	\$ 26,181,886	\$ 18,743,668
Other Federal Employment Benefits (Note 6)	29,263,759	24,978,463
Environmental and Disposal Liabilities (Note 7)	434,098	302,000
Other Liabilities (Note 8)	95,779,851	84,604,916
<b>Total Other than Intragovernmental</b>	<b>\$ 151,659,594</b>	<b>\$ 128,629,046</b>
<b>Total Liabilities</b>	<b>\$ 176,574,727</b>	<b>\$ 155,771,402</b>
<b>Commitments and Contingencies (Note 10)</b>		
<b>Net Position</b>		
Cumulative Results of Operations - Other Funds	\$ 235,886,331	\$ 226,059,606
<b>Total Net Position</b>	<b>\$ 235,886,331</b>	<b>\$ 226,059,606</b>
<b>Total Liabilities and Position</b>	<b>\$ 412,461,058</b>	<b>\$ 381,831,008</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 412,461,058</b>	<b>\$ 381,831,008</b>

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

## STATEMENTS OF NET COST

Fiscal Years Ended September 30	2023	2022
<b>Program Costs</b>		
Gross Costs	\$ 1,660,551,499	\$ 1,534,495,206
(Less: Earned Revenue)	(1,564,924,119)	(1,449,732,054)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$ 95,627,380	\$ 84,763,152
Net Program Costs Including Assumption Changes	\$ 95,627,380	\$ 84,763,152
<b>Net Cost of Operations (Note 11)</b>	<b>\$ 95,627,380</b>	<b>\$ 84,763,152</b>

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

## STATEMENTS OF CHANGES IN THE NET POSITION

Fiscal Years Ended September 30	2023	2022
<b>Cumulative Results of Operations</b>		
<b>Beginning Balances</b>	<b>\$ 226,059,606</b>	<b>\$ 231,453,233</b>
Transfers in/out without reimbursement	(770,589)	(317,045)
Imputed financing	109,246,060	79,734,798
Other	(3,021,366)	(48,227)
Net Cost of Operations (Note 11)	95,627,380	84,763,152
Net Change in Cumulative Results of Operations	\$ 9,826,725	\$ (5,393,627)
<b>Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections)</b>	<b>\$ 235,886,331</b>	<b>\$ 226,059,606</b>
<b>Total Net Position</b>	<b>\$ 235,886,331</b>	<b>\$ 226,059,606</b>

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

## STATEMENTS OF BUDGETARY RESOURCES

Fiscal Years Ended September 30	2023	2022
<b>Budgetary Resources</b>		
Unobligated Balance from prior year budget authority, net (discretionary and mandatory)	\$ 219,344,377	\$ 193,816,731
Contract Authority (discretionary and mandatory)	6,532,199	8,828,868
Spending Authority from offsetting collections	1,534,559,416	1,462,647,755
<b>Total Budgetary Resources (Note 12)</b>	<b>\$ 1,760,435,992</b>	<b>\$ 1,665,293,354</b>
<b>Status of Budgetary Resources</b>		
New obligations and upward adjustments (total)	\$ 1,562,143,084	\$ 1,462,543,512
Unobligated balance, end of year		
Apportioned, unexpired accounts	198,114,254	202,689,370
Unapportioned, unexpired accounts	\$ 178,654	\$ 60,472
Unexpired unobligated balance, end of year	\$ 198,292,908	\$ 202,749,842
Unobligated balance, end of year (total)	\$ 198,292,908	\$ 202,749,842
<b>Total Budgetary Resources (Note 12)</b>	<b>\$ 1,760,435,992</b>	<b>\$ 1,665,293,354</b>
Outlays, net (total) (discretionary and mandatory)		
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b>\$ (25,474,343)</b>	<b>\$ 5,653,110</b>

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



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# NOTES TO THE FINANCIAL STATEMENTS



## Note 1. Summary of Significant Accounting Policies

### 1.A. Mission of the Reporting Entity

The Defense Finance and Accounting Service (DFAS), a component of the Department of Defense (DoD), was established in 1991 by the Secretary of Defense to reduce the cost of DoD financial and accounting operations, and to reform financial management throughout DoD. The mission of DFAS is to lead our customers in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information.

Operating as a working capital fund (WCF), DFAS functions similarly to a private corporation by obtaining revenue through charging customers fixed prices for its services. DFAS sets its rates annually, two years in advance, based on anticipated workload and estimated costs calculated to offset any prior year gains or losses. Unlike the private sector, DFAS has little flexibility to adjust prices in the year of execution unless coordinated with the Office of the Under Secretary of Defense (Comptroller) (OUSDC). DFAS operations are subject to DoD, Executive Branch, and Legislative Branch oversight. DFAS programs and initiatives are guided by the Under Secretary of Defense Comptroller and DFAS' Chief Financial Officer.

### 1.B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the DFAS WCF, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DFAS WCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (U.S. GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements"; and the Department of Defense (DoD), Financial Management Regulation (FMR). FASAB is the official accounting standards-setting body of the Federal Government. The accompanying financial statements account for all resources for which the DFAS WCF is responsible unless otherwise noted.

### 1.C. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities, at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ materially from those estimates. Significant estimates and assumptions in these comparative financial statements require the exercise of judgment and are used for, but not limited to, allowance for

doubtful accounts, environmental liabilities, pension and other post-retirement benefit expenses, and the Federal Employee Compensation Act (FECA) Liability.

#### **1.D. Appropriations and Funds**

The DFAS WCF does not receive appropriations and funds as general, trust, special, or deposit funds, as it is only a working capital (revolving) fund. The DFAS WCF uses these funds to execute its missions and subsequently report on resource usage. Working capital funds receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

#### **1.E. Basis of Accounting**

DFAS presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis less the Eliminations. The Statement of

Budgetary Resources is presented on a combined basis. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and 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 is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use Federal funds.

#### **1.F. Revenues and Other**

##### **Financing Sources**

Revenue is recognized when earned and services have been rendered. Revenue is generated by sales of accounting and finance services to the DFAS customers through a reimbursable order process. The majority of services rendered by DFAS are provided to the Military Departments and other DoD agencies. The goal of a WCF organization is to breakeven over an extended period of time. In accordance with the DoD FMR, Volume 3, Chapter 19, the Accumulated Operating Results (AOR) and Net Operating Results (NOR) serve as the primary points of reference for determining the need to adjust billing rates. working capital fund organizations adjust future billing rates to counter the effects the fluctua-



tions have on the AOR. The positive and negative adjustments are normal business practices occurring when the net cost of operations is not zero. Because of the nature of a WCF, the unanticipated impacts on workload and cost fluctuations will result in profits or losses during any given year. Accumulated Operating Results is tracked from inception and requires constant routine monitoring to account for the fluctuating costs of conducting business.

### **1.G. Recognition of Expenses**

For financial reporting purposes, U.S. GAAP requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

### **1.H. Accounting for**

#### **Intragovernmental Activities**

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal Government. Costs and earned revenues with the public represent transactions made between the reporting entity and a nonfederal entity. The classification of revenue or cost as "intragovernmental" or "public" transactions is defined in the DoD FMR Volume 4, Chapter 1. The Treasury Financial Manual 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. The Defense Finance and Accounting Service is able to fully reconcile intragovernmental transactions with all federal agencies including Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management. Intra-entity costs and revenue represent transactions DFAS conducted with itself in the normal course of business. All intra-entity transactions have been removed, so the financial statements and footnotes present fairly not including transactions with interrelated parties. Imputed financing represents the cost paid on behalf of DFAS by another federal entity. The Defense Finance and Accounting Service 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; (3) losses in litigation proceedings; and (4) military payroll for service members assigned to DFAS.

### **1.I. Funds with the Department of Treasury**

The DFAS WCF monetary financial resources of collections and disbursements are maintained in U.S. Treasury (Treasury) accounts. The disbursing offices of DFAS process the majority of the DFAS' cash collections, disbursements, and adjustments world-

wide. Each disbursing station prepares monthly reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. In addition, DFAS submits reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBWT account. The Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DFAS, are included at the TI 97 DWCF appropriation sub-numbered level, an aggregate level that does not provide identification of the separate Defense Agencies by Treasury.

#### **1.J. Accounts Receivable**

Accounts receivable represents transactions occurring in the normal course of business by providing financial services to our customers. Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Claims receivable are transactions where DFAS has a right to cash (debt) from an outstanding customer account. Refunds receivable occur when DFAS receives a refund for a previous paid expense. On an annual basis, DFAS reviews all outstanding nonfederal customer accounts over 360 days to estimate the allowance for uncollect-

ible accounts. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history. In addition, significant accounts receivable balances may be reviewed individually, regardless of age.

DFAS does not recognize an allowance for estimated uncollectible amounts from other federal agencies as receivables from other federal agencies are considered to be inherently collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

#### **1.K. General Property, Plant and Equipment (PP&E)**

The WCFs capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category. General PP&E is carried at historical acquisition cost plus capitalized improvements. General PP&E, including real property, are capitalized at cost if the acquisition is \$250,000 or more. The asset must also have a useful life of two or more years. All General PP&E is depreciated based on the historical cost using the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years. Normal repairs

and maintenance are charged to expense as incurred.

Title 10, United States Code (U.S.C.) 2682, prohibits DoD agencies from owning real property (i.e. buildings). Therefore, DoD has implemented the recognition criteria of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," to report the financial position of its member agencies. As implemented by DoD regulations, ownership of real property is not a prerequisite to asset recognition. DoD FMR Volume 4, Chapter 6, states that legal ownership usually, but not always, is the determinant factor when determining which DoD component recognizes a particular General PP&E asset for accounting and reporting purposes in the financial statements. Asset recognition may also be based on the "Preponderance of Use" principle. This concept recognizes the DoD agency gaining the most benefit by virtue of space usage should capitalize the asset as General PP&E on their Balance Sheet.

### **1.L. Other Assets**

Other assets include advances and prepayments permitted by law, legislative action, or presidential authorization as mandated by Title 31, U.S.C 3324. The Department of Defense has implemented the recognition criteria of (SFFAS) No. 6, "Accounting for Property, Plant and Equipment)," to report advances and prepayments. As

implemented by DoD FMR Volume 4, Chapter 5, payments made in advance of the receipt of goods and services should be reported as an asset. They are shown on the Balance Sheet as Other Assets. Components of advances and prepayments include travel and labor advances, tuition assistance, subscriptions, postage; as well as, approved contractual and intragovernmental prepay agreements. DFAS policy is to expense and/or properly classify assets when the related goods and services are received. When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received.

### **1.M. Liabilities**

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the Department absent proper budget authority. Liabilities covered by budgetary resources are funded by current budget year for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example future environmental cleanup liability, represent amounts owed in excess of available obligations. Liabilities not funded by the current budget year

resources are classified as liabilities not covered by budgetary resources in Note 5, Liabilities Not Covered by Budgetary Resources.

### **1.N. Environmental and Disposal Liabilities**

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the DFAS' assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. For additional information, see Note 7, Environmental and Disposal Liabilities.

### **1.O. Leases**

Lease payments for the rental of equipment and operating facilities are classified as operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable. Office space and leases entered into by DFAS are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

### **1.P. Contingencies and Other Liabilities**

The SFFAS No. 5, "Accounting for Liabilities of the Federal Govern-

ment", as amended by SFFAS No. 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. DFAS recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. DFAS' risk of loss and resultant contingent liabilities arise from various administrative proceedings, legal actions, and potential claims.

### **1.Q. Accrued Leave**

DFAS reports liabilities for accrued compensatory and annual leave for civilians. Civilian leave is accrued as earned, and the accrued amounts are increased and decreased for actual leave taken and earned. The balances for accrued leave are adjusted monthly to reflect changes. The balances for civilian leave at the end of the fiscal year reflect current pay rates for the leave earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent budget resources are not available to fund annual leave earned but



not taken, funding will be obtained from future financing sources.

### **1.R. Net Position**

Net Position consists of cumulative results of operations. Cumulative Results of Operations represent the net difference between expenses and losses and financing sources (including revenue and gains), since inception. Cumulative Results of Operations also include the transfer in and out of assets that were not reimbursed.

### **1.S. Undistributed Disbursements and Collections**

Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 5100, requires agencies to reconcile their FBWT accounts on a regular and recurring basis to assure the integrity and accuracy of their financial reporting data. The DFAS WCF does not have a separate FBWT account. Instead, the Treasury maintains an account for DFAS' collection and disbursement activities. On a monthly basis, DFAS' collections and disbursements are adjusted with undistributed collections and disbursements to agree with the Treasury. Undistributed collections and disbursements represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the source system and those reported by the Treasury. The current year collections,

disbursements, and cash transfers applicable to DFAS' operations are recorded in the financial records during the fiscal year.

### **1.T. Pensions, Other Retirement Benefits, and Other Post-Employment Benefits**

Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, as stated in the SFFAS No. 5, "Accounting for Liabilities of the Federal Government." Factors used in the calculation of pension and post-retirement health and life insurance benefit expenses were provided by the Office of Personnel Management financial management letters regarding cost factors for pension and other retirement benefits expense. The cost factor for computing the Federal Employees Health Benefits Program (FEHB) imputed cost was \$8,775 in FY 2022 and \$9,640 in FY 2023. The Federal Employees' Group Life Insurance Program (FGLI) the cost factor was 0.02% in both FY 2022 and FY 2023. The cost factor for employees covered by Civil Service Retirement System (CSRS) was 46.20% in FY 2022 and 50.40% in FY 2023. The cost factor for the Federal Employees Retirement System (FERS) was 19.70% in FY 2022 and 22.40% in FY 2023. DFAS civilian employees participate in the CSRS and FERS, while military personnel are covered by

the Military Retirement System (MRS). Employees and personnel covered by FERS and MRS also have varying coverage under Social Security. DFAS funds a portion of the civilian and military pensions. The funded actuarial liability and unfunded actuarial liability for the military personnel are reported in the DoD Military Retirement Fund. The actuarial liability for the military retirement health benefits is recognized in the DoD Agency-wide statements. For employees participating in FERS, FERS-Revised Annuity Employee (FERS-RAE), and FERS-Further Revised Annuity Employees (FERS-FRAE), DFAS contributes an amount equal to 1% of the employee's basic pay to the tax deferred Thrift Savings Plan (TSP), and matches employee contributions up to an additional 4% of pay. DFAS contributions to the TSP was \$33.9 million for FY 2022 and \$36.9 million for FY 2023. Employees participating in CSRS receive no matching contributions from DFAS.

#### **1.U. Interest on Late Payments**

DFAS, on occasion, incurs interest penalties on late payments. All such interest penalties are paid to the respective vendor in accordance with the guidelines mandated by the Prompt Payment Act, Public Law, 97-177, as amended.

#### **1.V. Contract Authority**

As a WCF, DFAS must recover from customers, through revenue

earned, all expenses necessary to operate. DFAS purchases assets using contract authority granted by the OUSD(C) and then recovers the cost over the useful life of the asset through depreciation expense built into the billing rates. DoD FMR, Volume 11B, Chapter 3, Budgetary Resources, defines contract authority as the amount available for obligation and remains available through the end of the fiscal year. At year-end, this amount is reduced to match the amount of executed dollars through the normal year-end closing processes.

#### **1.W. Contract Audit Backlog**

Most DFAS contracts are subject to review by the Defense Contract Audit Agency (DCAA) to include those contracts at the Defense Contract Management Agency (DCMA). To that end, DCMA and DFAS contracting offices are not able to render decisions on the deobligation of contracts and closure until the DCAA contract audit is completed. DCAA has experienced a severe backlog in contracts to be audited since the early 1980's. DCAA, while serving the public interest as its primary customer, performs all necessary contract audits for the DoD and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. The services provided by DCAA include negotiation, admin-

istration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. To aide in rectifying the backlog situation, Class Deviation 2012-O0013, "DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals" was issued on July 24, 2012. The intent of the proposal was to incorporate more effective oversight efforts without increasing risk to the Government. In addition, the proposal serves as a means for decreasing the backlog of incurred cost audits at DCAA. The realization of these efforts will assist with more timely cost adjustments. The extensive reviews potentially affect DFAS' financial position because of related cost adjustments from vendors. The total cost adjustments from vendors cannot be reasonably estimated for FY 2023, but management believes the amount is immaterial.

#### **1.X. Classified Activities**

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

#### **1.Y. Reclassifications**

Certain FY 2022 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

## Note 2. Fund Balance with Treasury

As of September 30	2023	2022
<b>Status of Fund Balance with Treasury</b>		
Unobligated Balance:		
Available	\$ 198,114,254	\$ 202,571,189
Unavailable	178,654	60,472
<b>Subtotal</b>	<b>\$ 198,292,908</b>	<b>\$ 202,631,661</b>
<b>Obligated Balance not yet Disbursed</b>	<b>\$ 227,099,293</b>	<b>\$ 198,465,536</b>
<b>Non-FBWT Budgetary Accounts:</b>		
Unfilled Customer Orders without		
Advance	(12,941,847)	(23,760,978)
Contract Authority	(79,970,038)	(92,983,411)
Receivables and Other	(35,948,877)	(13,295,712)
<b>Total Non-FBWT Budgetary Accounts</b>	<b>\$ (128,860,762)</b>	<b>\$ (130,040,101)</b>
<b>Total FBWT</b>	<b>\$ 296,531,439</b>	<b>\$ 271,057,096</b>

The Treasury records cash receipts and disbursements on DFAS's behalf and are available only for the purposes for which the funds were appropriated. DFAS' fund balances with treasury consists of revolving funds.

The Status of Fund Balance with Treasury (FBWT), as presented in the table above, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to

cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The Unobligated Balance Unavailable for \$178,654 consists of the American Rescue Plan Act (ARPA) of 2021.

Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

Non-budgetary FBWT includes the amount of Contract Authority DFAS has not liquidated to date, and the uncollected portion of service agreements with other Federal Agencies. Contract Authority is a specific statutory authority permitting DFAS to incur and liquidate obligations in advance of receiving cash. Non-FBWT Budgetary Accounts reduce the Status of FBWT.

**Note 2. Fund Balance with Treasury, continued**

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

Unfilled Customer Orders Without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

The FBWT reported in the financial statements has been adjusted to reflect the DFAS's balance as reported by Treasury. The difference between FBWT in the DFAS'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 DFAS's general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DFAS's general ledger accounts. For 4th Quarter FY 2023 reporting period, the absolute value for the DFAS' undistributed reconciling adjustment to Treasury was \$45,098,070 for FY 2023 due to a payroll in transit for the month of September and \$2,144,254 for FY 2022.



### Note 3. Accounts Receivable, Net

As of September 30	2023		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 33,403,486	\$ N/A	\$ 33,403,486
Nonfederal Receivables (With the Public)	181,676	0	181,676
<b>Total Accounts Receivable</b>	<b>\$ 33,585,162</b>	<b>\$ 0</b>	<b>\$ 33,585,162</b>

As of September 30	2022		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 12,500,503	\$ N/A	\$ 12,500,503
Nonfederal Receivables (From the Public)	215,595	(80,543)	135,052
<b>Total Accounts Receivable</b>	<b>\$ 12,716,098</b>	<b>\$ (80,543)</b>	<b>\$ 12,635,555</b>

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

The largest contributor for the Accounts Receivable balance is the Defense Security Cooperation Agency (DSCA) and Air Force Active which had receivable balances of \$10.9 million and \$9.6 million respectively. The timing of these two large receivables made up the significant change from the prior year.

**Note 4. General PP&E, Net**

As of September 30	2023				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>Major Asset Classes</b>					
Leasehold Improvements	S/L	Lease term	\$ 149,007,636	\$ (138,334,022)	\$ 10,673,614
Software	S/L	2-5 or 10	\$ 114,235,812	\$ (71,938,267)	\$ 42,297,545
General Equipment	S/L	Various	\$ 95,442,970	\$ (81,888,881)	\$ 13,554,089
Construction-in-Progress	N/A	N/A	\$ 5,236,630	N/A	\$ 5,236,630
<b>Total General PP&amp;E</b>			<b>\$363,923,048</b>	<b>\$ (292,161,170)</b>	<b>\$ 71,761,878</b>

As of September 30	2022				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>Major Asset Classes</b>					
Leasehold Improvements	S/L	Lease term	\$ 147,017,472	\$ (131,916,691)	\$ 15,100,781
Software	S/L	2-5 or 10	\$ 116,053,002	\$ (66,509,748)	\$ 49,543,254
General Equipment	S/L	Various	\$ 95,176,650	\$ (78,771,325)	\$ 16,405,325
Construction-in-Progress	N/A	N/A	\$ 10,662,147	N/A	\$ 10,662,147
<b>Total General PP&amp;E</b>			<b>\$368,909,271</b>	<b>\$ (277,197,764)</b>	<b>\$ 91,711,507</b>

**Legend for Valuation Methods:**

S/L = Straight Line      N/A = Non-Applicable

\* Estimated useful service life is 35 years for structures, 40 years for linear structures and 45 years for buildings.

The total cost of General Property, Plant & Equipment (PP&E) was \$363.9 million at September 30, 2023 and \$368.9 million at September 30, 2022. Such amounts include Software with a cost of \$114.2 million in 2023 and \$116.1 million in 2022. Of those Software amounts, Internal Use Software in Development (IUSD) was \$6.7 million in 2023 and \$5.6 million in 2022. IUSD costs are not depreciated until such software has been put in service. Based on FY 2020 reporting guidance found in DoD FMR Volume 4, Chapter 24 "Real Property", DoD Components were required to transfer all real property assets to the host installations where those assets were placed in service. Based on this directive, DFAS has completed the transfer of \$0.54 million and \$0.80 million net book value of real property to the military services, in fiscal years 2022 and 2023, respectively.

### Note 4. General PP&E, Net, continued

As of September 30	2023	2022
General PP&E, Net beginning of year	\$ 91,711,507	\$ 109,873,571
Capitalized acquisitions	6,541,386	9,267,198
Dispositions	0	0
Transfers in/(out) without reimbursement	(770,589)	(542,551)
Revaluations (+/-)	(3,021,365)	(48,227)
Depreciations expense	(22,699,061)	(26,838,484)
General PP&E, Net end of year	\$ 71,761,878	\$ 91,711,507

The amount presented as “revaluations” in the table above consists of losses on disposals.

**Note 5. Liabilities Not Covered by Budgetary Resources**

<b>As of September 30</b>	<b>2023</b>	<b>2022</b>
<b>Intragovernmental Liabilities</b>		
Other	4,497,645	4,611,651
<b>Total Intragovernmental Liabilities</b>	<b>\$ 4,497,645</b>	<b>\$ 4,611,651</b>
<b>Nonfederal Liabilities</b>		
Other Federal Employment Benefits	29,144,516	24,356,046
Environmental and Disposal Liabilities	434,098	302,000
Other Liabilities	0	0
<b>Total Nonfederal Liabilities</b>	<b>\$ 29,578,614</b>	<b>\$ 24,658,046</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 34,076,259</b>	<b>\$ 29,269,697</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 142,498,468</b>	<b>\$ 126,501,705</b>
<b>Total Liabilities</b>	<b>\$ 176,574,727</b>	<b>\$ 155,771,402</b>

Intragovernmental Other Liabilities are the unfunded liabilities for Federal Employees' Compensation Act (FECA). The FECA liability represents the billed and unbilled amount owed to the Department of Labor related to employee compensation for wages lost due to a job-related injury.

Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year.

Refer to Note 7, Environmental and Disposal Liabilities for additional details and disclosures.

Nonfederal Other Liabilities consists of unfunded compensatory and credit annual leave liability. Refer to Note 6, Other Federal Employment Benefits, for additional details.

## Note 6. Other Federal Employment Benefits

As of September 30	2023		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	25,057,448	0.00	25,057,448
Other – Unfunded Leave	4,206,311	(119,243)	4,087,068
Total Other Federal Employment Benefits	29,263,759	(119,243)	29,144,516
Other benefit-related payables included in Intragovernmental Other Liabilities	9,075,402	(4,577,757)	4,497,645
<b>Total Other Federal Employment Benefits</b>	<b>\$ 38,339,161</b>	<b>\$ (4,697,000)</b>	<b>\$ 33,642,161</b>

As of September 30	2022		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	20,494,164	0.00	20,494,164
Other – Unfunded Leave	4,484,299	(622,417)	3,861,882
Total Other Federal Employment Benefits	24,978,463	(622,417)	24,356,046
Other benefit-related payables included in Intragovernmental Other Liabilities	9,996,817	(5,385,166)	4,611,651
<b>Total Other Federal Employment Benefits</b>	<b>\$ 34,975,280</b>	<b>\$ (6,007,583)</b>	<b>\$ 28,967,697</b>

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits, or better known as Federal Employees' Compensation Act (FECA). This includes the expected liability for death, disability, medical, and other estimated miscellaneous costs. Historical benefit payment patterns are used to predict the future costs after being discounted to present value using the OMB economic assumptions for 10-year U.S. Treasury notes and bonds. The DOL provides an estimated actuarial liability for future workers' compensation benefits at the DoD Level only, and DFAS' reported FECA liability is based on the DoD Agency-wide allocation method using an average based on the last three annual chargeback bills for actual claims submitted and approved by the DOL. The allocated portion of the actuarial liability for future workers' compensation benefits for DFAS for FY 2023 is \$25,057,448 and FY 2022 was \$20,494,164.

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



**Note 7. Environmental and Disposal Liabilities**

As of September 30	2023	2022
Environmental Liabilities — Nonfederal		
Other Accrued Environmental Liabilities — Non-BRAC		
Asbestos	434,098	302,000
<b>Total Environmental and Disposal Liabilities</b>	<b>\$ 434,098</b>	<b>\$ 302,000</b>

**Applicable Laws and Regulations for Cleanup Requirements**

DFAS is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. DFAS accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. DFAS is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. DFAS follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, Public Law 96-510), Superfund Amendments and Reauthorization Act of 1986 (SARA, Public Law 99-499), Resource Conservation and Recovery Act (RCRA, Public Law 94-580) or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require DFAS to clean up contamination in coordination with regulatory agencies, current owners of property damaged by DFAS, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements

and legal mandates puts DFAS at risk of incurring fines and penalties.

**Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities**

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

**Methods for Assigning Total Cleanup Costs to Current Operating Periods**

DFAS uses engineering estimates and independently validated models are used by DFAS to project environmental costs. The models include the Remedial Action Cost Engineering Requirements application and the Normalization of Data System. The models are validated by DFAS in accordance

with DoD Instruction 5000.61, DoD Modeling and Simulation Verification, Validation, and Accreditation, and estimates liabilities based on data received during preliminary assessment and site investigation. Engineering estimates are primarily used by DFAS after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project. Once the environmental cost estimates are complete, DFAS complies with accounting standards to charge costs to current operating periods. Cleanup costs are expensed by DFAS for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, DFAS expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The remaining cost over the life of the assets are systematically recognized by DFAS. For General PP&E placed into service after September 30, 1997, DFAS expenses associated environmental costs using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The full cost to clean up contamination is expensed by DFAS for Stewardship PP&E when the asset is placed into service. In accordance with reporting requirements for asbestos, DFAS reports liabilities for buildings and facilities containing both friable and non-friable asbestos. At this time DFAS is unable to reasonably

estimate an amount of the total cleanup costs related to friable and non-friable asbestos.

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

Estimates revised by DFAS result from overlooked or previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope. Although DFAS is unaware of pending changes, environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology.

**Note 8. Other Liabilities**

As of September 30	2023		
	Current	Noncurrent	Total
<b>Intragovernmental</b>			
Other Federal Employee Benefits	\$ 6,585,889	\$ 2,489,513	\$ 9,075,402
Total Intragovernmental Other Liabilities	\$ 6,585,889	\$ 2,489,513	\$ 9,075,402
<b>Other than Intragovernmental</b>			
Other Federal Employee Benefits	95,779,851	0	95,779,851
Total Other than Intragovernmental	\$ 95,779,851	\$ 0	\$ 95,779,851
<b>Total Other Liabilities</b>	<b>\$ 102,365,740</b>	<b>\$ 2,489,513</b>	<b>\$ 104,855,253</b>

As of September 30	2022		
	Current	Noncurrent	Total
<b>Intragovernmental</b>			
Other Federal Employee Benefits	\$ 7,504,185	\$ 2,492,632	\$ 9,996,817
Total Intragovernmental Other Liabilities	\$ 7,504,185	\$ 2,492,632	\$ 9,996,817
<b>Other than Intragovernmental</b>			
Other Federal Employee Benefits	84,604,916	0	84,604,916
Total Other than Intragovernmental	\$ 84,604,916	\$ 0	\$ 84,604,916
<b>Total Other Liabilities</b>	<b>\$ 92,109,101</b>	<b>\$ 2,492,632</b>	<b>\$ 94,601,733</b>

## Note 9. Operating Leases

As of September 30	2023		
	Asset Category		
	Land and Buildings	Equipment	Total
<b>Federal</b>			
Fiscal Year			
2024	\$ 23,469,059	\$ 836,629	\$ 24,305,688
2025	24,337,414	867,584	25,204,998
2026	25,237,899	899,685	26,137,584
2027	20,841,021	932,973	21,773,994
2028	9,926,278	967,493	10,893,771
After 5 Years	6,862,367	1,003,290	7,865,657
<b>Total Future Lease Payments Due</b>	<b>\$ 110,674,038</b>	<b>\$ 5,507,654</b>	<b>\$ 116,181,692</b>
<b>Non-Federal</b>			
Fiscal Year			
2024	\$ 133,976	\$ 0	\$ 133,976
2025	0	0	0
2026	0	0	0
2027	0	0	0
2028	0	0	0
2029	0	0	0
After 5 Years	0	0	0
<b>Total Non-Federal Future Lease Payment</b>	<b>\$ 133,976</b>	<b>\$ 0</b>	<b>\$ 133,976</b>
<b>Total Future Lease Payments</b>	<b>\$ 110,808,014</b>	<b>\$ 5,507,654</b>	<b>\$ 116,315,668</b>

### Other Disclosures

DFAS has no capitalized leases. All DFAS leases are operating leases for rent, where DFAS is the lessee. The CPI rate of 3.7% (obtained from the Office of Macroeconomic Analysis within their publication "Profile of the Economy") was used for future year projections as increases to the lease rental

amounts. The dollar amount of DFAS' operating lease commitments for future years as of this reporting period consists of the amounts reflected in the table above.

While a portion of DFAS' leases are cancelable, at this time all of the amounts under commitment are reasonably expected to be future expenses, and are therefore included in the above schedule.

**Note 10. Commitments and Contingencies**

The Defense Finance and Accounting Service accrues contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. If applicable, DFAS WCF would record such contingent liabilities in Note 8, Other Liabilities. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund.

DFAS is not aware of any contingent liabilities for legal actions in FY 2023.



## Note 11. General Disclosures Related to the Statements of Net Cost

Fiscal Years Ended September 30	2023	2022
Gross Cost	\$ 1,660,551,499	\$ 1,534,495,206
Less: Earned Revenue	(1,564,924,119)	(1,449,732,054)
Total Net Cost	<u>\$ 95,627,380</u>	<u>\$ 84,763,152</u>

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the federal government 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. DFAS captures its current processes and reports accumulated costs for major programs as required by the Government Performance and Results Act. Additionally, DFAS has fully implemented unit cost reporting and reports these costs by responsibility segment on a monthly basis as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the federal government," as amended by SFFAS No. 55, "Amending, Inter-entity Cost Provisions."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity.

**Note 12. Disclosures Related to the Statements of Budgetary Resources**

<b>Fiscal Years Ended September 30</b>	<b>2023</b>	<b>2022</b>
<b>Intragovernmental:</b>		
Unpaid	23,360,878	24,201,114
Prepaid/Advanced	2,679,986	978,876
<b>Total Intragovernmental</b>	<b>\$ 26,040,864</b>	<b>\$ 25,179,990</b>
<b>Nonfederal:</b>		
Unpaid	58,694,557	46,849,327
Prepaid/Advanced	7,902,593	5,447,974
<b>Total Non-federal</b>	<b>\$ 66,597,150</b>	<b>\$ 52,297,301</b>
<b>Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b>	<b>\$ 92,638,014</b>	<b>\$ 77,477,291</b>

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget." Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation). The total amount of DFAS' obligations incurred for \$1,562,143,084 is classified as Reimbursable Apportionment Category B.

**Reconciliation Differences**

Under OMB Circular A-11, Federal agencies are to report budgetary information in the Statement of Budgetary Resources (SBR) based on budget terminology, definitions, and guidance issued. OMB Circular A-11 also states that the information on the SBR should be consistent with budget execution information reported in the President's Bud-

get. Additionally, per SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," agencies are to provide a financial statement footnote disclosure to explain significant differences between amounts presented in the SBR and amounts described as actuals in the President's Budget. However, since DFAS is a component of the DoD rather than a separate Federal agency as envisioned by OMB requirements, an analysis of information reported in both the SBR and the Report on Budget Execution (SF-133) at September 30, 2023 is performed. There are no differences between the SBR and the SF-133, Report on Budget Execution and Budgetary Resources & Budget Program and Financing Schedule.

### Note 13. Reconciliation of Net Cost of Operations to Net Outlays

As of September 30	2023		
	Intragovernmental	With the public	Total
<b>Net Cost of Operations (SNC)</b>	\$ (1,019,800,241)	\$ 1,115,427,621	\$ 95,627,380
<b>Components of the Net Cost That are Not Part of Net Outlays</b>			
Property, plant, and equipment depreciation	0	(19,949,629)	(19,949,629)
Increase (decrease) in assets:			
Accounts Receivable	22,653,165	46,624	22,699,789
Other assets	1,701,109	2,454,619	4,155,728
(Increase)/decrease in liabilities:			
Accounts payable	(444,374)	(7,438,219)	(7,882,593)
Environmental and disposable liabilities		(132,098)	(132,098)
Federal employees and veteran benefits payable		(4,285,295)	(4,285,295)
Other Liabilities	921,415	(11,174,935)	(10,253,520)
Financing sources:			
Imputed Cost	(109,246,060)	0	(109,246,060)
<b>Total Components of Net Costs That Are Not Part of Net Outlay</b>	<b>\$ (84,414,745)</b>	<b>\$ (40,478,933)</b>	<b>\$ (124,893,678)</b>
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Other	770,589	3,021,366	3,791,955
<b>Total Components of Net Outlays That Are Not Part of Net Costs</b>	<b>\$ 770,589</b>	<b>\$ 3,021,366</b>	<b>\$ 3,791,955</b>
<b>Net Outlays</b>	<b>\$ (1,103,444,397)</b>	<b>\$ 1,077,970,054</b>	<b>\$ (25,474,343)</b>
<b>Agency Outlays, Net, Statement of Budgetary Resources</b>			<b>\$ (25,474,343)</b>
<b>Reconciling Differences</b>			<b>\$ 0</b>

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Section III

ADDITIONAL INFORMATION (UNAUDITED)

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

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NOTES PAGE

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Tactical air control party specialists with the 137th Special Operations Wing, Oklahoma National Guard, conduct a static line jump during Tradewinds 23 exercise at Air Base London, Guyana, July 18, 2023. The different training components of the exercise are focused on increasing regional cooperation throughout the Caribbean and Caribbean Basin. (U.S. Air National Guard photo by Tech. Sgt. Brigette Waltermire)



# GLOSSARY OF ACRONYMS AND ABBREVIATIONS



Acronym	Description
ADA	Anti-Deficiency Act
AFR	Agency Financial Report
Agency	Defense Finance and Accounting Service
AFR	Agency Financial Report
AI	Artificial Intelligence
AMT	Audit Management Tool
AOR	Accumulated Operating Results
B CAPs RS	Blended Retirement System
CAPS-W	Computerized Accounts Payable System for Windows
CSRS	Civil Service Retirement System
CUEC	Complimentary User Entity Control
DAI	Defense Agencies Initiative
DAMP	Deficiency Assessment and Management Process
DCAA	Defense Contract Audit Agency
DEAMS	Defense Enterprise Accounting and Management System
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DHP-CRM	Defense for Health Affairs-Contract Resource Management
DIFMS	Defense Industrial Financial Management System
DISA	Defense Information Systems Agency
DoD	Department of Defense
DoDIG	Defense Inspector General
DOL	Department of Labor
DRRT	Department Reconciliations and Reporting Tool
DSCA	Defense Security Cooperation Agency
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FEGLI	Federal Employees' Group Life Insurance
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FERS-FRAE	FERS-Further Revised Annuity Employees
FFMIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAO	Government Accountability Office
GF	General Fund
ICAM	Identity, Credential, & Access Management

<b>Acronym</b>	<b>Description</b>
IPA	Independent Public Accountant
MERHCF	Medicare-Eligible Retiree Health Care Fund
MOCAS	Mechanization of Contract Administrative Services
MRF	Military Retirement Fund
MRS	Military Retirement System
NDS	National Defense Strategy
NFRs	Notice of Findings and Recommendations
NIMMS	NAVAIR Industrial Material Management System
NOR	Net Operating Results
NTDO	Non-Treasury Disbursing Operations
ODO	Other Defense Organizations
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
OUSDC	Office of the Under Secretary of Defense (Comptroller)
PP&E	Property, Plant, and Equipment
RPA	Robotics Process Automation
RSI	Required Supplementary Information
SAA	Security Assistance Accounts
SBR	Statement of Budgetary Resources
SECDEF	Secretary of Defense
SFFAS	Statement of Federal Financial Accounting Standards
SMAS	Standard Material Accounting System
SNC	Statement of Net Cost
SoA	Statement of Assurance
SOD	Statement of Difference
SSAE-18	Standards for Attestation Engagement No. 18
STARS	Standard Accounting and Reporting System
SWAP	Simplified Workflow Access Protocol
TDO	Treasury Disbursing Operations
TFM	Treasury Financial Manual
TI	Treasury Financial Manual
TREASURY	U.S. Department of Treasury
TSP	Thrift Savings Plan
U.S.C	United States Code
UoT	Universe of Transactions
US GAAP	U.S. Generally Accepted Accounting Principles
WCF	Working Capital Fund

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# NOTES PAGES







