



DEFENSE FINANCE AND ACCOUNTING SERVICE

2024

AGENCY FINANCIAL REPORT



2024

ABOUT THIS DOCUMENT

Defense Finance and Accounting Service (DFAS) is pleased to present the Fiscal Year (FY) 2024 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 2024 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.

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

OTHER INFORMATION

This section contains additional information such as the summary of financial statement audit and management assurances and a glossary of acronyms.



U.S. Army paratroopers assigned to the Brigade Support Battalion, 173rd Airborne Brigade, conduct an airborne operation with U.S. Air Force 86th Air Wing C-130 Hercules aircraft onto Juliet DZ, Pordenone, Italy, Jan. 11, 2024. The 173rd Airborne Brigade is the U.S. Army's contingency response force in Europe, providing rapidly deployable forces to the United States European, African, and Central Command areas of responsibility. Forward deployed across Italy and Germany, the brigade routinely trains alongside NATO allies and partners to build partnerships and strengthen the alliance. (U.S. Army photo by Paolo Bovo)

TABLE OF CONTENTS

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DFAS AT A GLANCE	04
INTRODUCTION	14
THE DFAS STRATEGY	16
THE FOCUS ON AUDIT	22
MANAGEMENT ASSURANCES	30
COMPLIANCE AND REGULATIONS	34
FINANCIAL DISCUSSION AND ANALYSIS	38

SECTION II: FINANCIALS

MESSAGE FROM THE CHIEF FINANCIAL OFFICER	48
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	50
MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT	58
COMPARATIVE FINANCIAL STATEMENTS	62
NOTES TO THE FINANCIAL STATEMENTS	68

SECTION III: OTHER INFORMATION (UNAUDITED)

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES	98
GLOSSARY OF ACRONYMS AND ABBREVIATIONS	100
NOTES PAGES	104

MESSAGE FROM THE DIRECTOR



AUDREY Y. DAVIS

Audrey Y. Davis

2024



WELCOME

Hello and thank you for taking a moment to review the DFAS Fiscal Year (FY) 2024 Agency Financial Report. It is my honor to share this report with you. Far more than just a presentation of our financial statements, it showcases our dedication to proudly serving America's heroes through our core values of integrity, service, and innovation.

In this document, you will learn more about key initiatives that focus on our four strategic priorities to Invest in People, Strengthen Customer Partnerships, Modernize the Business Environment, and Enhance Performance. Our strategy sets the tone and drives action toward achieving desired results.

As we complete the third year of our five-year strategic plan, we are accelerating our mission capabilities through partnership, and reaching the goals we set for ourselves. By achieving these goals, we will realize our vision for 2026, which is to be a valued partner in financial management by consistently delivering first class service and products. Our goals are carefully aligned to other Department strategy documents, such as the DoD Financial Management Strategy and the National Defense Strategy, and because of this, our strategic accomplishments contribute to overarching Department strategic goals.

We pride ourselves in continuing to lead in audit results, earning our 25th consecutive unmodified audit opinion on the FY 2024 DFAS Working Capital Fund financial statements.

As a shared service provider, DFAS is in a unique position to see where customers have similar problems that could be solved with a common solution. We explore in unison and when we find an innovative answer for one, our next step is to magnify our efforts by looking for opportunities to apply it to another...and another. DFAS is in a perfect position to identify and implement improvements to data management, and through our efforts, facilitate the Department's ability to make data-driven decisions and improve audit performance.

DFAS also continues to modernize the business environment through Robotics Process Automation (RPA) and Artificial Intelligence (AI). In FY 2024, we achieved the significant milestone of deploying our 100th Bot (a Bot is a software technology that mimics human interactions with a computer), and through this automation, realizing increased efficiencies. These efficiencies translate into more time available for our DFAS employees to perform the human-centric tasks which are key to our mission.

It is through our diverse and talented workforce that we achieve our success. As our largest investment, we are committed to building or enhancing the skillsets of our workforce with an emphasis on diversity, equity, inclusion, and accessibility.

As we enter FY 2025, we remain dedicated to continuing our proven record of success. I take immense pride in the DFAS workforce, who have selflessly driven our agency's successes for more than 33 years. Their passion for our mission and one another justifies our placement as the fourth best Defense Agency in the annual "Best Places to Work in the Federal Government" rankings.

Each year brings unique opportunities, and we look forward to serving our customers and partners as we remain committed to being good stewards of taxpayer dollars.

SECTION I

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DFAS AT A GLANCE

INTRODUCTION

THE DFAS STRATEGY

THE FOCUS ON AUDIT

MANAGEMENT ASSURANCES

COMPLIANCE AND REGULATIONS

FINANCIAL DISCUSSION AND ANALYSIS



The Arleigh Burke-class guided-missile destroyer USS Ralph Johnson (DDG 114) and the Royal Canadian Navy Halifax-class frigate HMCS Montreal (FFH 336) conduct bilateral operations in the East China Sea, July 30, 2024. Ralph Johnson is forward deployed and assigned to Destroyer Squadron (DESRON) 15, the Navy's largest DESRON and the U.S. 7th Fleet's principal surface force. (U.S. Navy photo by Mass Communication Specialist 1st Class Jamaal Liddell)



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 supports the pay of all DoD military personnel, retirees and annuitants. In addition, DFAS pays all DoD civilians as well as other 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 lower costs 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.





A Marine Corps AH-1Z Viper dispenses flares while conducting threat counter tactics training over the Pacific Ocean, Aug. 1, 2024. The aircraft launched from the USS Boxer.

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 customers.

CORE VALUES

INTEGRITY

**Doing what
is right**

SERVICE

**Remain a
trusted financial
partner**

INNOVATION

**Creating better
ways to
do business**

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 OF THE DoD



DFAS BY THE NUMBERS

NUMBER OF
EMPLOYEES

10,940

20%

DFAS WORKFORCE WITH
AN ADVANCED DEGREE

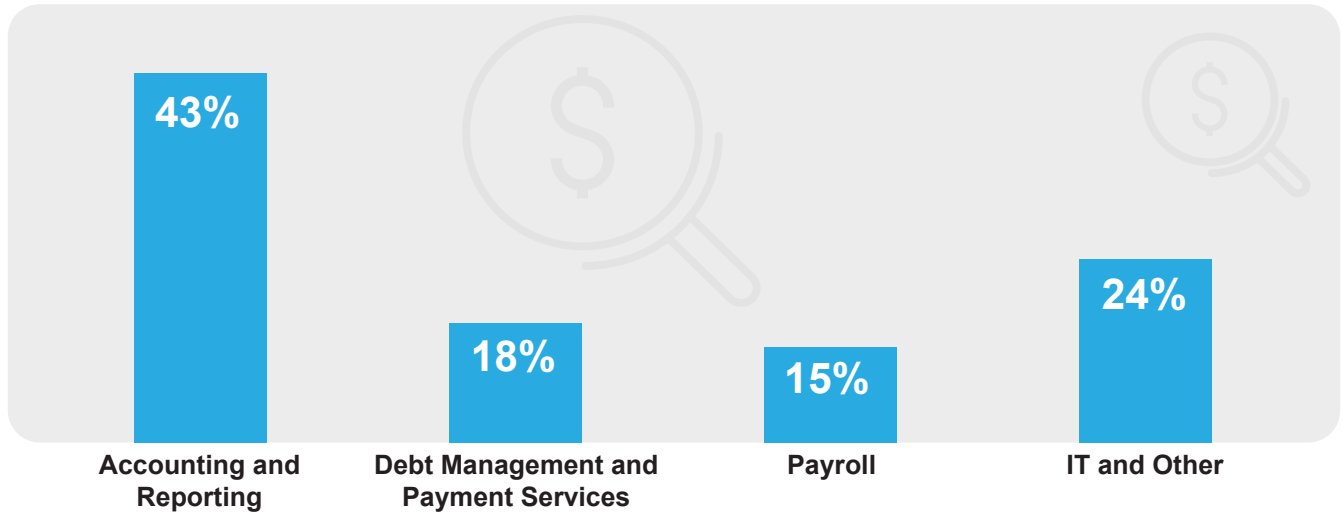
AVERAGE AGE OF
DFAS EMPLOYEE

49

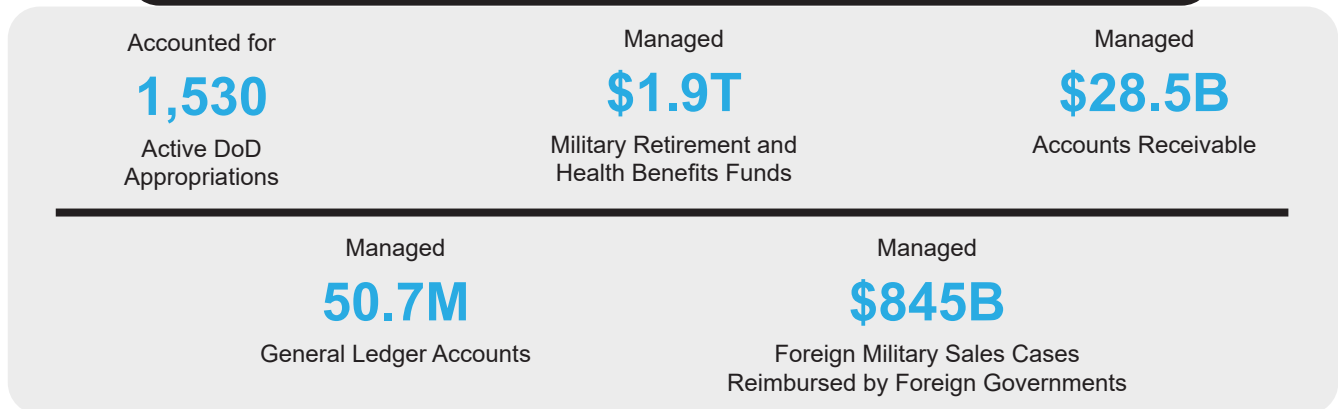
19%

DFAS EMPLOYEES
WHO ARE VETERANS

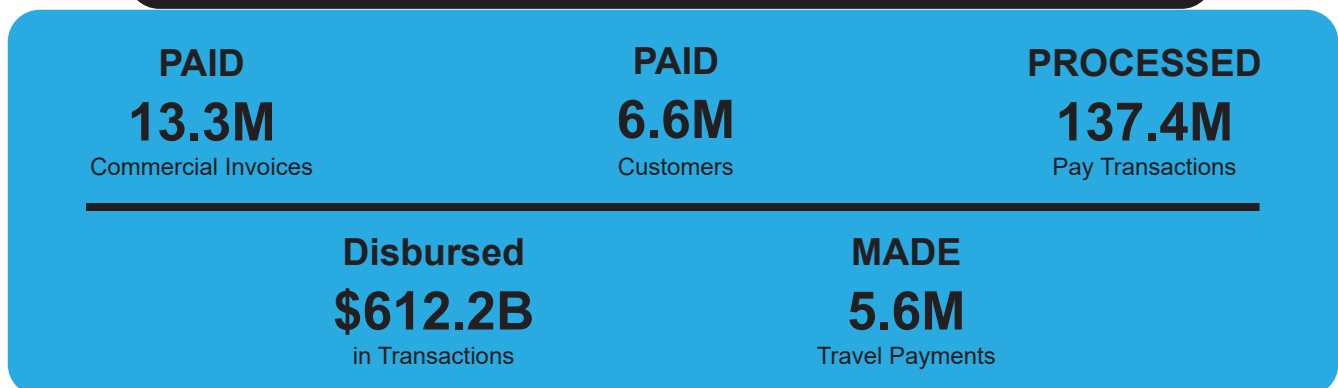
OUR REVENUE STREAMS



FINANCE AND ACCOUNTING SERVICES



PAY PEOPLE AND VENDORS





A service member of the 147th Attack Wing directs a vehicle onto a C-5 Galaxy during loading operations at Ellington Field JRB, Houston, Texas, August 28, 2024. The team is participating in Ample Strike, working to ensure that all equipment is safely and efficiently loaded in support of the Czech Armed Forces. (U.S. Air National Guard Photo by Airman 1st Class Eduardo Figueroa Varela)

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

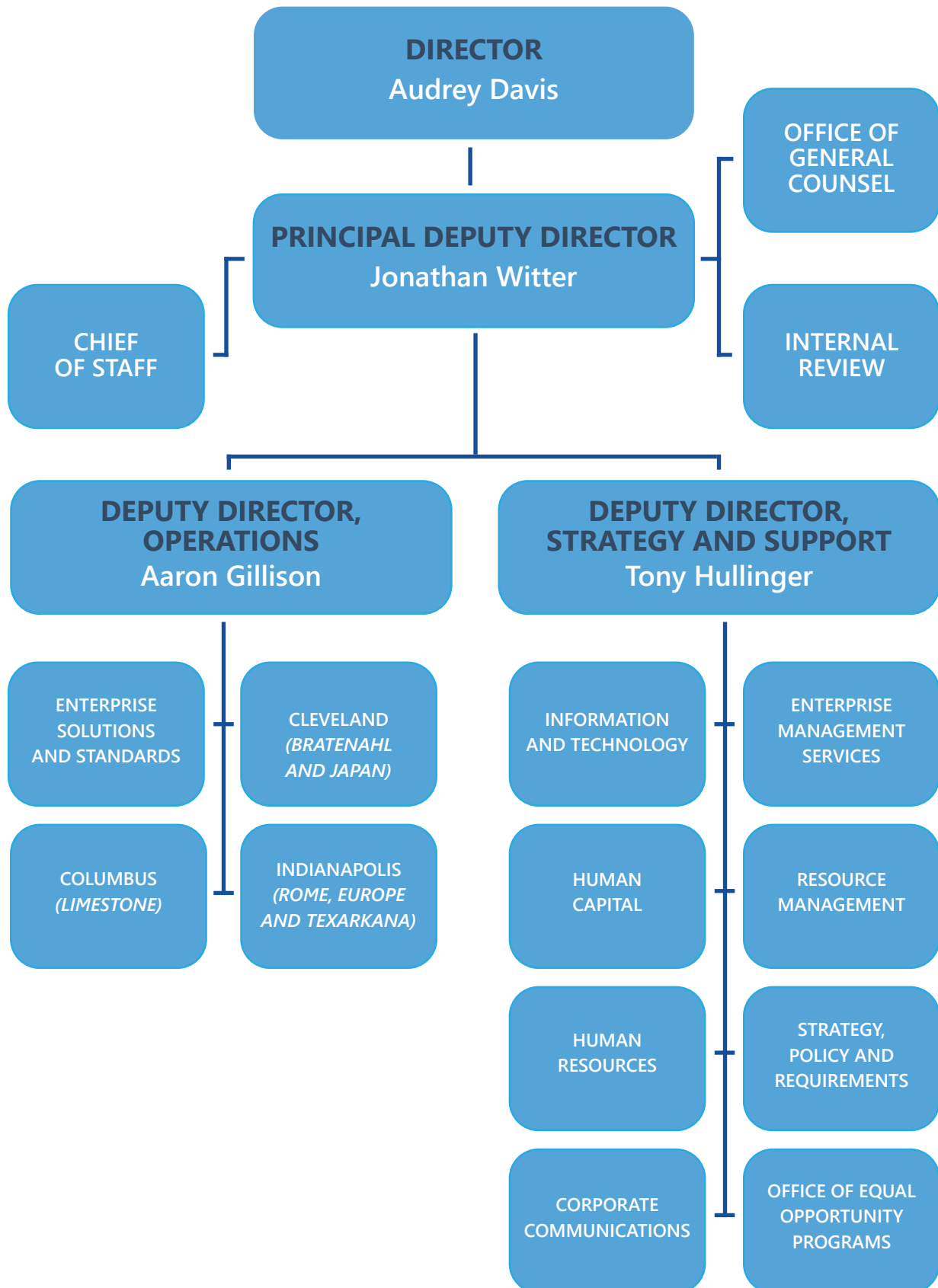
Evaluates content and structure of the DFAS strategy, corporate operational dashboard, and other Agency priorities to successfully execute strategy.

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



DFAS LOCATIONS



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

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



● Kaiserslautern,
Germany

● Yokota
Air Base,
Japan

10,940 employees around the globe to support the warfighter



INTRODUCTION



Fiscal Year (FY) 2024 marks the third year of our FY22-26 Strategic Plan. 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) looks at the strategy and the goals our leadership achieved during year three. We then take a closer look at our focus on audit and how we continue to be an example to other agencies with our 25th consecutive unmodified financial statement audit opinion. Additionally, we delve into some of the successes achieved as a service provider to help move the Department closer to its audit goals.

THE DFAS STRATEGY

DFAS's strategy is a five-year plan that provides a structure to follow in achieving the DFAS mission. With Investing in People, Strengthening Customer Partnerships, Modernizing the Business Environment, and Enhancing Performance 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 in FY 2024.

THE FOCUS ON AUDIT

The annual goal for DFAS is to sustain an unmodified audit opinion, and this year DFAS celebrates its 25th 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 highlight accomplishments we have made as a service provider to help our customers achieve their audit goals.

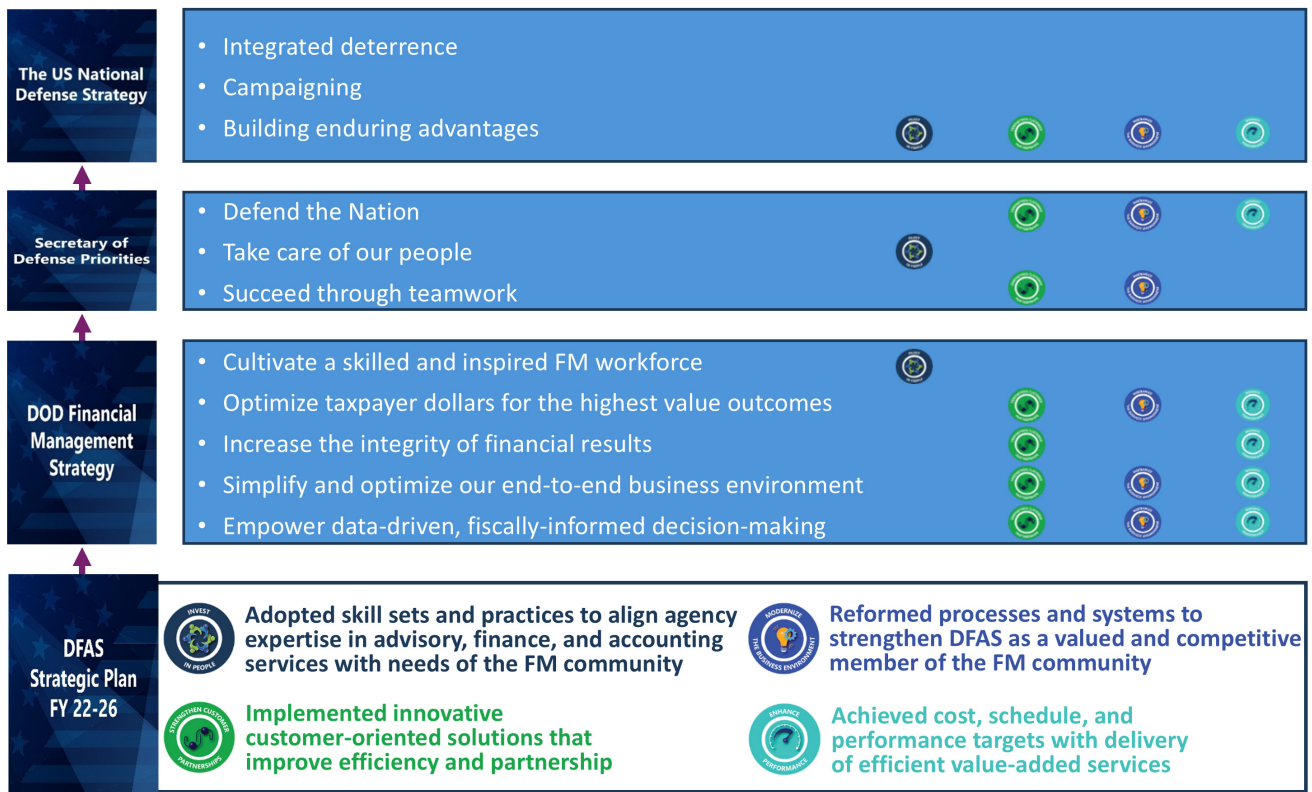


THE DFAS STRATEGY

Defense Finance and Accounting Service (DFAS) uses a robust strategy to prepare for tomorrow, today. The DFAS strategy is developed in five-year increments and is currently executing initiatives to support the goals set in its Fiscal Year (FY) 2022-2026 plan. Each element of this plan is designed to help DFAS follow its Mission statement to deliver financial excellence and quality pay services for its customers. By following this Mission statement, DFAS aims to achieve its Vision to be a valued partner in financial management by consistently delivering first-class service and products. The DFAS strategic framework provides structure to keep initiative owners on track toward the Mission and Vision statements, and annual reviews of that structure allow DFAS the flexibility to anticipate change and respond with innovation. This robust process demonstrates the Agency's commitment to a strategic approach to business and keen preparation for the future.

The FY 2022-2026 Strategic Plan includes four priorities: **Invest in People, Strengthen Customer Partnerships, Modernize the Business Environment, and Enhance Performance.** Each priority is championed by a Deputy Director of the Agency and supported by Outcome Leaders who oversee key focus areas. Together, these leaders form a Strategic Council responsible for supporting key initiatives and keeping the Agency on track to meet annual goals. This emphasis and focus on strategy is advantageous to DFAS and to the Department of Defense (DoD) overall. The DFAS strategy is closely linked to Secretary of Defense Priorities, and the Agency's strategic successes support the overarching goals of the DoD Financial Management Strategy and the National Defense Strategy.

This year, DFAS reached the halfway point in its FY 2022-2026 Strategic Plan. The Agency is achieving annual accomplishments that keep DFAS, and the Department, on course toward meeting future goals.



Invest in People



DFAS understands that its people are the foundation for strategic and mission success, and the initiatives within the Invest in People priority were chosen to reflect that. Providing opportuni-

ties for employees to build or enhance their skill sets will align Agency expertise with the needs of the financial management community. By strengthening its people, DFAS is ensuring the continued strategic importance of its workforce by enabling all to be prepared for the future.

Through action in the Talent Management Plan initiative, DFAS is working to build the alignment of certification, training, and continuing education for its qualified data analytics workforce. In FY 2024, this talent management initiative team assessed skill and experience gaps within DFAS's internal recruitment pipeline. Once the assessment was complete, the team cataloged existing opportunities to build data analyst and data scientist experience. New opportunities were identified as well, and all were used to develop and communicate career roadmap materials for this specialty. These actions are helping DFAS reach its strategic goal to expand skills in advanced data analytics, which will result in providing solutions and insights to help customers achieve their priorities.

Finally, DFAS's Mission Integrated Diversity Implementation Plan initiative successfully updated agency supervisors' performance standards to include expanded engagement with Diversity, Equity, Inclusion, and Accessibility (DEIA) initiatives, programs, and policies. This action will result in recognized accountability at all supervisory levels for equity in the workplace. DFAS's inclusion of this initiative in its strategy demonstrates the Agency's recognition that integrating best practices to develop a talented workforce in ways that increasingly value diversity will accelerate mission success.

Strengthen Customer Partnerships



The Strengthen Customer Partnerships priority includes initiatives designed to help the Agency identify and implement innovative customer-oriented solutions that improve effi-

ciency and partnerships. Work in this priority is broad-ranging and includes actions that take strategic advantage of DFAS's position as a shared service provider. Very often, when DFAS creates a solution for one customer, it can also be used for other customers. DFAS is in a unique position to help save the Department time and resources as it moves toward its financial management goals. Two areas of accomplishment that are especially impactful to the Department are the Fund Balance with Treasury (FBWT) initiative and the Data Integrity initiative.

Efforts in the FBWT Internal Controls initiative focus on improving the audit position of the Department by downgrading customer FBWT Material Weaknesses. DFAS understands that to achieve these downgrades, auditors require assessments of the risk that the FBWT line item on the Balance Sheet might be misstated. Several components contribute to this risk, and auditors require a reliable assessment of the impact of all risks combined. DFAS developed 'materiality assessments' to meet this requirement. In FY 2024, DFAS matured its process to gather and report this risk, beginning with Universe of Transactions data and incorporating several elements of risk analysis to determine the 'materiality assessment' for a component's financial statement. Once developed, DFAS expanded the process and now provides quarterly materiality assessments to every customer who needs them to support their audit. This product has proven to be very effective, and in FY 2024, Army Working Capital Fund, Navy General Fund, Air Force General Fund, and the United States Marine Corps received downgrades to or elimination of their FBWT Material Weaknesses.

The actions included in DFAS's Data Integrity initiative help move the Department toward standardized financial reporting processes, which will improve data integrity. In FY 2024, DFAS partnered with data owners to migrate accounting systems to the latest version of Standard Financial Information Structure (SFIS), which is a goal within Secretary of Defense Austin's Universe of Transactions audit priority. DFAS developed an SFIS Attribute Alignment tool to identify data elements that will result in errors during migration. In FY 2024, this tool was successfully used during the migration of the Army's General Fund Enterprise Business System (GFEBS) data as well as the first wave of the Navy Enterprise Resource Planning (ERP) migration. The tool facilitated the increase of data compliance rates from less than 20% to 100% compliance. The migrated data in the Defense Departmental Reporting System (DDRS) is now passing key validations, leading to improved data integrity for the Department.

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.

Progress in the DFAS 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 2024, DFAS met the significant milestone of deploying its 100th attended Bot. A Bot is a software technology that mimics human interactions with a computer in order to automate processes.

DFAS knows that Bots developed for one team can often be applied to work on other teams, resulting in exponential increases in benefits realized. In FY 2024, one example of these benefits is the group of Bots now used to pull documents for multiple customers' audit samples. Reliance on this technology allows audit support teams to provide the thousands of documents requested by auditors in a fraction of the time it would take to pull them manually.

Within the FY 2022-2026 Strategic Plan, the AI Cognitive Services Technology initiative is accelerating innovation at DFAS. DFAS's strategic initiative in this area yielded tremendous success last year with our ALERT tool, which analyzes a million transactions in a matter of seconds, detecting and flagging potentially fraudulent transactions. In FY 2024, the DFAS team created a suite of adaptable solutions which will simplify deployment of additional AI use cases. These solutions promote scalability and ease of integration across different mission areas.

Another key area in the Modernize the Business Environment priority is DFAS's 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 10 years, and over that time DFAS has partnered with its customers to retire 28 systems, achieving a cost savings of \$35 million. In FY 2024, DFAS retired one system: DFAS Tactical Processing Analysis Tool (DTPAT). These retirements resulted in total savings of more than 86% of the cost of running the legacy systems compared to modern ERP systems. The work continues, and each system retirement saves costs and reduces risks associated with maintaining legacy systems.

Enhance Performance



The Enhance Performance priority focuses on efforts to achieve cost, schedule, and performance targets with the delivery of efficient value-added services. In FY 2024, the Advana-Improper

Payment Detection initiative added functionality in Advana, to include hard-coded logic for three fraud-focused integrity checks. By utilizing Advana in this way, DFAS is bringing important benefits to the Department, including expanding these integrity check capabilities to other entitlement systems without adding cost. Success in this initiative will help to achieve enhanced Commercial Pay services through increased efficiency and strengthened internal controls.

DFAS's Future of Military Pay initiative continues its work to support the Military Services in the development of their individual Service Integrated Personnel and Pay Systems (SIPPS). The SIPPS will modernize and more closely align military personnel and pay. Through its small team of military pay experts, this initiative is supporting requirements development, performing data cleansing reviews, and providing expertise and advice to the Services as these capabilities are developing. Through these actions, DFAS is demonstrating its understanding of the critical intersection of personnel and pay and is ensuring service members are the focus as these plans are developed. As pay-related laws and policies change, military pay experts at DFAS will continue to ensure consistent and standard pay outcomes to service members by partnering across the services, with OUSD Personnel & Readiness, and with external agencies to maintain consistent system updates and approaches.

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 that allows initiative owners to make appropriate adjustments within the five-year cycle to accommodate shifts in the business environment. As DFAS passes 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 increasing value to DFAS customers through partnerships across the Department.

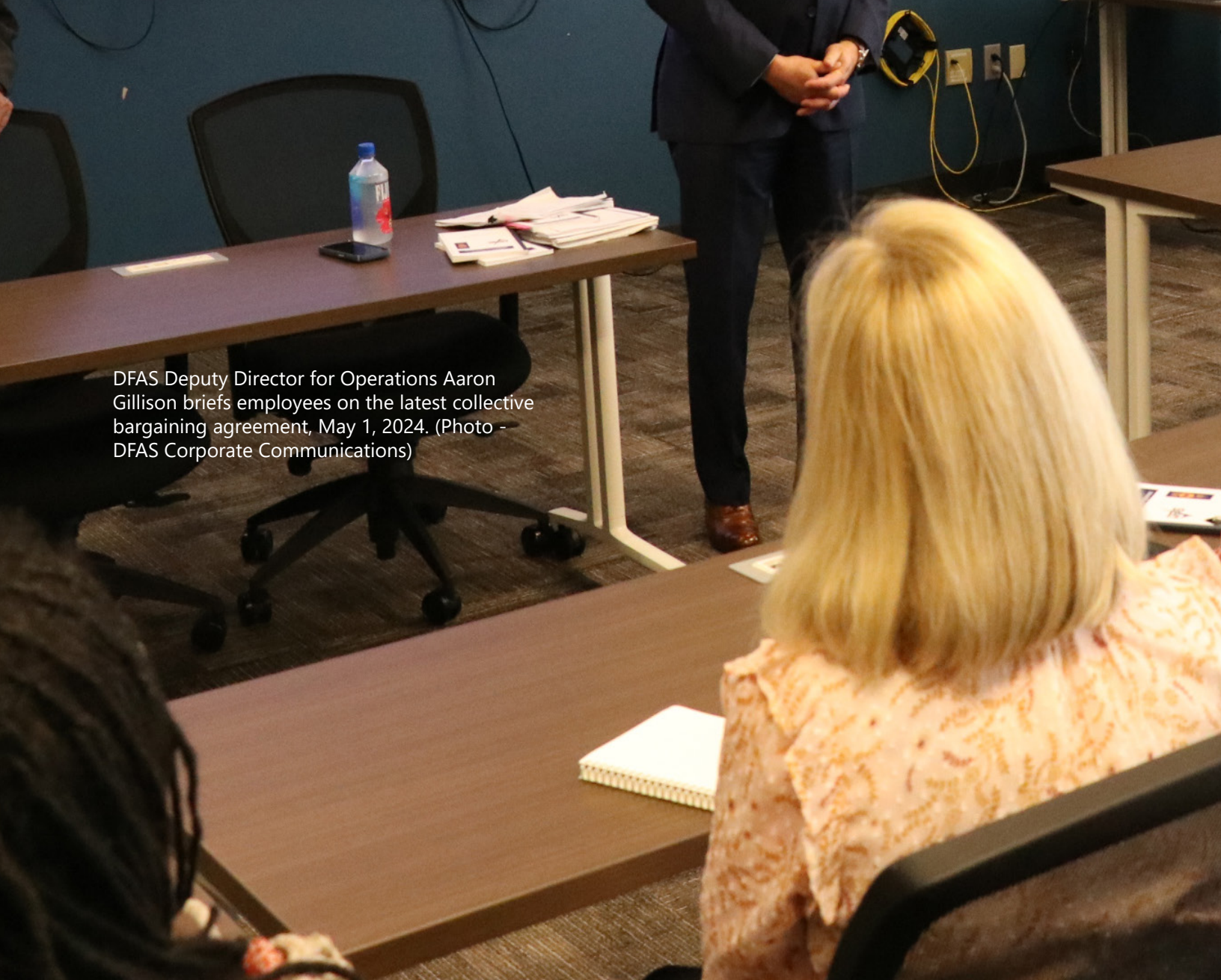
Update on the New
Master Collective Bargaining
Agreement (MCBA)

DFAS and AFGE Council 171

Integrity - Service - Innovation



DFAS Deputy Director for Operations Aaron Gillison briefs employees on the latest collective bargaining agreement, May 1, 2024. (Photo - DFAS Corporate Communications)





THE FOCUS ON AUDIT



As in past years, DFAS has continued to achieve audit success both as an entity and as a service provider. To increase accountability to the American public, the Fiscal Year (FY) 2024 National Defense Authorization Act (NDAA) mandates that the Department of Defense (DoD) achieve an unmodified financial statement audit opinion by December 31, 2028. This mandate leads to an acceleration of the Department's audit goals, with the focus on audit becoming even more significant than in prior years.

DFAS: THE ENTITY

This year, we are celebrating a milestone as DFAS has earned its 25th consecutive unmodified financial statement audit opinion. The audit of DFAS's financial statements was conducted by Williams Adley & Company, and their comprehensive audit report has been incorporated within this document.

Sustained Success

DFAS recognizes that collaboration and communication across all parties involved in the audit are keys to success. This is why the Agency has invested in establishing and maintaining a dedicated audit support team that delivers proven, repeated results. With the aim of fostering purposeful engagement between DFAS mission units involved in audit testing and the Independent Public Accountant (IPA), this group conducted daily discussions to address issues identified throughout the audit. Additionally, bi-weekly meetings between the IPA management team and DFAS leadership were utilized as a collaborative space for senior management to deliberate and address potential concerns related to the audit in real-time.

During FY 2024, DFAS carried out five in-depth financial process walkthroughs, which provide auditors with the understanding they need to plan and conduct audit procedures. Furthermore, we coordinated on-site inventory testing at five DFAS sites and successfully fulfilled nearly 250 requests by providing approximately 600 documentation packages to the auditors.

Continued Improvements

In addition to the efforts made to sustain DFAS's unmodified opinion in the current year, the audit support team is dedicated to making continuous improvements that will ensure DFAS is postured for audit success in future years as well.

During the FY 2023 DFAS audit, the IPA issued Notices of Recommendations and Findings (NFRs) related to Fund Balance with Treasury (FBWT) and Property, Plant, and Equipment (PP&E), with the FBWT issue being identified as a significant deficiency. FBWT reconciliation processes evolved due to the transitions from Department 97 Reconciliation and Reporting Tool (DRRT) to Advana and from e-Biz to the Defense Agencies Initiative (DAI). Testing of these new processes in FY 2023 revealed that system logic issues within Advana were producing false variances which delayed remediation of true variances and that DFAS did not have a document level population to fully support reconciliation of the general ledger to the official Treasury reported balances. Before the end of FY 2023, DFAS implemented a monthly year-to-date undistributed universe of transactions (UoT) process to match the cadence of Advana variance research, which now serves as the document level population that ties the general ledger to the Cash Management Report (CMR). Additionally, research and tracking procedures were enhanced to better isolate false variances identified in Advana, allowing the team to focus their efforts on resolving true variances.

Regarding PP&E, the IPA noted concerns related to physical asset testing in FY 2023, indicating that DFAS did not have strong enough controls in place to properly identify where physical assets were located. Once again, DFAS took immediate action to begin strengthening controls and mitigating these concerns. A monthly report was created that provides point-in-time data to be used as a full population to include the assets' locations. Standardization of the location field in the Defense Property Accountability System (DPAS), the official system used for property accountability, was also put in place to ensure consistency for all assets. Finally, the DFAS team also began a more enhanced book to floor review of physical assets to confirm completeness and accuracy of records.

The immediate action DFAS took to investigate, adapt, and implement processes to resolve the FBWT and PP&E findings proved successful. Testing during the FY 2024 audit confirmed that the changes made beginning in FY 2023 and carried forward into FY 2024 produced consistent results, and the corrective actions put in place eliminated the issues for FBWT, ultimately clearing the significant deficiency and closing the NFR. The PP&E improvements helped to narrow the scope of the issues and enabled DFAS to more accurately pinpoint areas for further improvement in FY 2025.

One leading factor in an agency's audit success is the consistent and accurate application of established policy. In FY 2023, DFAS transitioned to the Defense Agencies Initiative (DAI) Enterprise Resource Planning (ERP) system, which introduced significant changes to multiple processes. To keep pace with the changing environment, several projects were established to help DFAS further integrate into the new system environment. The DAI Enterprise Solutions project looked at the Procure to Pay (P2P) process to outline roles and responsibilities, map processes, and establish policy to standardize practices. This project established high-level standard procedures and guidance for processes that could be utilized across several DFAS organizations to reduce audit risk and enhance data integrity.

In FY 2024, the DFAS team devoted time to analyzing approximately 150 Complimentary User Entity Controls (CUECs) for completeness and accuracy. Key controls were documented in the Agency's Enterprise Resource Management Tool and are regularly tested to ensure controls are working as intended. CUECs, in conjunction with service providers' controls, will continue to be an important piece of the control environment and audit success for years to come.

DFAS continuously dedicates its efforts to improving our own audit and sustaining our unmodified opinion; however, even more remarkable are the actions we take as a service provider to help move each customer, and the Department as a whole, closer to achieving their audit goals.

DFAS: THE 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, DFAS plays an integral role in audit by providing finance and accounting services to the Army, Navy, Air Force, Marine Corps, Space Force, and all the Defense Agencies. This role includes:

- preparing process maps
- conducting walkthroughs
- documenting internal controls
- providing supporting documentation
- creating and performing reconciliations
- conducting internal audit testing
- implementing customer Corrective Action Plans (CAPs)
- addressing Notices of Findings and Recommendations (NFRs)

To understand the scope of our business, DFAS actively supports 29 financial statement audits. This includes 28 stand-alone audits and 1 DoD Agency-Wide Consolidated audit. In total of these audits, there were 247 NFRs from the FY 2023 audit supported by 189 DFAS owned CAPs. So far, DFAS has closed 19 NFRs from FY 2023. Our current actual FY 2023 NFR closure rate is 8% with a projected closure rate of 18%. DFAS has exceeded both our own and the Department's 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, there are audit support teams dedicated to each customer. 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. These valued partnerships continue 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 10,000 auditor requests with more than 86,000 pieces of key supporting documentation at a timeliness rate of 97%.

Fund Balance with Treasury

As the Department of Defense's lead for FBWT, DFAS continues to evolve in our role to reconcile the DoD fund balance to the Department of Treasury records. Each new calendar year, the audit year begins with a two-day virtual FBWT summit. This foundational meeting sets the tone to communicate key initiatives and to 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 Deposit Accounts. This past year's summit brought together a diverse audience of more than 800 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 FBWT 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 complete universe of transactions.

Looking to the year ahead, DFAS will continue to develop and maintain key reconciliations, detailed universe of transactions, management analyses, and materiality assessments. DFAS will also 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 timely financial statement disclosures.

Risk Management and Internal Controls

This fiscal year DFAS kicked off the "Check It to Protect It!" Agency-wide campaign reinforcing the importance of accuracy and attention to detail, which protects DFAS's customers by effectively and efficiently accomplishing our mission.

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

Customer Audit Opinions

As a service provider, in FY 2024, DFAS assisted the Defense Information System Agency (DISA) Working Capital Fund in obtaining its 5th consecutive unmodified audit opinion. By proactively implementing corrective action plans to meet audit remediation timelines, we also provided support to achieve unmodified audit opinions for our Defense Commissary Agency (DeCA), Defense Contract Audit Agency (DCAA), and Defense for Health Affairs – Contract Resource Management (DHP-CRM) customers. Further, in FY 2024 the United States Marine Corps (USMC) was issued its first unmodified audit opinion for the FY 2023 audit.

Alongside our customers, DFAS also celebrated the sustainment of the 32nd unmodified opinion for the Military Retirement Fund (MRF). Additionally, the 22nd consecutive qualified opinion for the Medicare-Eligible Retiree Health Care Fund (MER-HCF) was obtained. 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.

SOC 1® Reports

System and Organization Control reports, more commonly known as a SOC 1 reports, also represent significant successes of the audit. These 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 Type 2 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.

In FY 2024, DFAS achieved nine unmodified SOC 1 opinions, including two first time unmodified opinions for the DFAS Defense Cash Accountability System (DCAS) and Vendor Pay – Defense Agencies Initiative (DAI). This achievement marks DFAS's highest rate of unmodified opinions to date with just over 81% of DFAS SOC 1 reports achieving unmodified opinions. The Civilian Pay and Disbursing SOC 1 reports both received their 12th consecutive unmodified opinion and the Contract Pay SOC 1 received its 11th consecutive unmodified opinion. In addition, for the first time, all Vendor Pay SOC 1 reports received unmodified opinions. And, while the Military Pay SOC 1 received a modified, qualified opinion, the number of qualified control objectives reduced by over 50% and achieved all Information Technology (IT) General Controls.

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.

Results of DFAS SOC 1 Reports									
Assessable Unit	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Civilian Pay Service <small>Inaugural Year: FY05</small>	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Military Pay Service <small>Inaugural Year: FY13</small>	Modified, Qualified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Modified, Qualified	Modified, Qualified
Standard Disbursing Service <small>Inaugural Year: FY13</small>	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Contract Pay Service <small>Inaugural Year: FY14</small>	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Financial Reporting Service <small>Inaugural Year: FY14</small>	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified
Defense Cash Accountability System (DCAS) <small>Inaugural Year: FY16</small>	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Unmodified
Vendor Pay Service	CAPS-W	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Unmodified	Modified, Qualified	Unmodified
	DAI			Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Adverse	Unmodified
	One Pay			Modified, Qualified	Unmodified	Unmodified	Unmodified	Modified, Qualified	Unmodified
	Navy ERP	Modified, Qualified	Modified, Qualified					Unmodified	Unmodified
	IAPS			Modified, Qualified	Modified, Qualified	Unmodified	Unmodified	Modified, Qualified	Unmodified
	DEAMS						Modified, Qualified	Unmodified	Unmodified
	GFEBS					Modified, Qualified	Unmodified	Modified, Qualified	Unmodified
ELAN Hosting Service			Modified, Qualified	Unmodified	Modified, Qualified	Unmodified	Modified, Qualified	Unmodified	

Figure 1—Statement on Standards for Attestation Engagements (SSAE) Number 18 Results, FY 2016-2024. Overseen by the American Institute of Certified Public Accountants (AICPA), SSAE18 governs the way organizations report on their various compliance controls.

System Access Controls

Another Secretary of Defense priority DFAS aligns resources to is the Strengthen Internal Control Environment – Identity, Credential, and Access Management (ICAM) initiative. At DFAS, continuously improving system access processes and controls for our employees, and the military and civilian customers the Agency supports is a top priority.

During this fiscal year, DFAS continued our partnership with DISA to define and develop an ICAM DoD-wide enterprise tool. Through collaboration with DISA, DFAS communicated and tested universal requirements for systems access controls and segregation of duties (SOD) within an enterprise ICAM pilot development. These requirements reflect modern security and access management policy while addressing DoD NFRs for the multiple defense organizations that are supported.

To better plan, control, and test, DFAS took a phased-approach and rolled out ICAM to Defense Industrial Financial Management System, NAVAIR Industrial Material Management System, Automated Bill of Materials (DNA), and the ERM Toolset. However, the work does not stop there as another key focus is on migration efforts for eight additional critical-to-audit financial management systems.

In addition to implementing modernized technology improvements for system access controls, we are dedicated to improving current processes. Overall DFAS information technology NFRs decreased by 27% from FY 2022 to FY 2023 which is a direct result of partnership with stakeholders throughout the audit period. Further reductions upon completion of the FY 2024 audit cycle are anticipated.

Audit Strategy: The Path to 2028

DFAS has directly contributed to the creation, implementation, and execution of the FBWT Remediation Strategy, in support of the DoD 2028 audit acceleration goals resulting from the FY 2024 NDAA mandate. During this fiscal year, DFAS led several efforts as a service provider to support the DoD FBWT Material Weakness (MW) downgrade through variance risk reductions in the following areas: unsupported FBWT journal vouchers, undistributed amounts, Cash Management Report (CMR) variances, and suspense account balances.

Further variance risk reduction efforts have been made as part of the To Be Determined or "TBD entity" universe of transactions population initiative. IPAs view this population as a risk to all reporting entities. Through DFAS collaborative efforts, the Defense Threat Reduction Agency (DTRA), Defense Advanced Research Projects Agency (DARPA), and DISA FY 2024 suspense account and CMR variances for the "TBD entity" population were significantly reduced. Similar efforts were pursued for the Statement of Difference (SoD) FBWT variance category, leading to an overall reduction of the total SoD "TBD entity" population for all reporting entities as well.

As a service provider, DFAS has built upon the Department's FY 2023 FBWT successes. DFAS helped to achieve MW downgrade of Army WCF, Navy General Fund, and United States Marine Corps (USMC) with full elimination of Air Force General Fund MW and continued to maintain focus on downgrading additional entity FBWT MWs for FY 2024. By identifying, prioritizing, and executing FBWT critical path elements, DFAS accelerates key corrective actions and related initiatives to properly align resources to support the Department's needs.

In addition to focusing efforts on downgrading FBWT MWs, DFAS is diligently exploring opportunities to utilize a variety of technologies to support audits. These technologies create audit efficiencies and capabilities that will ultimately strengthen the partnerships between DFAS and our customers, helping customers reach their audit goals. One example of success is the DFAS Robotics Process Automation initiative which aims to automate processes through software that mimics human interactions with computers; this group of software is referred to as Bots. Using a Bot, DFAS was able to provide over 17,000 documents in less than 30 days to aid in DTRA 2024 audit preparations. Another such technology is PowerBI, which was used to develop an automation tool that applied data analytics to some of the FBWT "TBD entity" population. This helped lead to the risk reductions that have been achieved in that area.

Looking Ahead

As we look ahead into FY 2025 and beyond, DFAS will maintain its steadfast focus of supporting the downgrade of the DoD FBWT material weakness while driving efforts toward a clean opinion for the Department and sustaining the clean audit opinion for DFAS. We recognize that there is still much work to be done, but the dedicated workforce at DFAS has proven successful at managing evolving priorities and is committed to delivering excellence.



Honor guardsmen stand in formation prior to a bilateral exchange between Secretary of Defense Lloyd J. Austin III and Ukrainian Minister of Defense Rustem Umerov at the Pentagon, Washington, D.C., July 2, 2024. (DoD photo by U.S. Navy Petty Officer 1st Class Alexander Kubitzka)



MANAGEMENT ASSURANCES



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH 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) 2024

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, 2024.

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. DFAS demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority (PDA).

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Audrey Y. Davis
Director

A U.S. Space Force mission, carrying the first Weather System Follow-on – Microwave (WSF-M) satellite, launches aboard a SpaceX Falcon 9 rocket from Space Launch Complex 4-East at Vandenberg Space Force Base, Calif., April 11, 2024, at 7:24 a.m. PDT. This is the 13th mission to launch from Vandenberg Space Force Base's Spaceport to date. The low-earth orbit space vehicle is capable of sensing, storing, and transmitting microwave raw sensor data to enable derivation of ocean surface vector wind, tropical cyclone intensity, snow depth, soil moisture and sea ice characterization, supporting joint military operations and mission planning across the globe. (U.S. Space Force photo by Airman 1st Class Olga Houtsma)





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 2024. 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, 2024, 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-I, DFAS Financial Management Instruction,

Enclosure 14, provides agency policy for investigating and reporting ADA violations. During FY 2024, 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 asset sales 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 \$13,600 of Prompt Payment Interest penalties during FY 2024.

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.

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FINANCIAL DISCUSSION AND ANALYSIS



DFAS Principal Deputy Director Jonathan Witter (2nd from left) leads a panel at the Annual Business Refresh meetings at the U.S. Air Force Museum in Dayton, Ohio, September 18, 2024. (Photo by Darrell Sydnor - DFAS Corporate Communications)



Employees meeting at DFAS Limestone in Maine, October 7, 2024. (Left to right) Cassidy Godin, Accountant, Michael Sullivan, Branch Chief of Analysis and Reconciliation, Ethan Doody, Division Chief of Reports and Analysis, Danny Dominique, Division Chief of General Ledger, Stephanie Closson, Accountant. (Photo - DFAS Corporate Communications)

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. 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 and utilizing a predominantly labor-based expense structure, fluctuations in customer demand for services have a direct and significant effect on DFAS's financial performance.

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.

Fiscal Years Ended September 30	2024	2023
Net Cost of Operations	\$ 130,539,883	\$ 95,627,380
Net Position	\$ 232,274,989	\$ 235,886,331

Financial Statement Analysis

DFAS 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 to manage the DFAS-WCF unobligated balance. The Office of the Under Secretary of Defense, (Comptroller) (OUSDC) 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 to evaluate the performance of the organization.

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

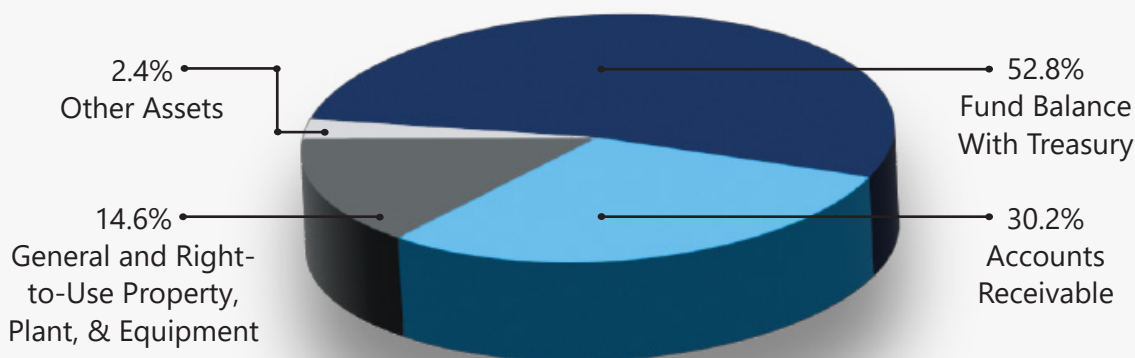
The financial statements and notes are prepared in accordance with federal accounting standards using generally accepted accounting principles and audited by our independent auditor Williams, Adley & Company-DC, LLP.

Balance Sheet

The Balance Sheet reflects DFAS's financial position as of September 30, 2024, 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 2023 to FY 2024.

As of September 30	2024	2023	Change	% Change
Assets	\$ 414,002,626	\$ 412,461,058	\$ 1,541,569	0.4%
Liabilities	181,727,637	176,574,727	5,152,911	2.9%
Net Position	\$ 232,274,989	\$ 235,886,331	\$ (3,611,342)	(1.5%)

Composition of Assets



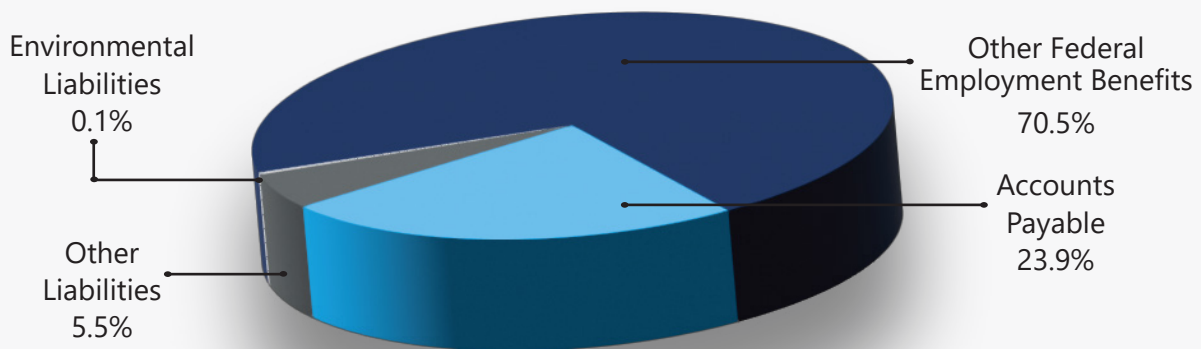
Total DFAS Assets of \$414.0 million on September 30, 2024, consisted primarily of \$218.4 million in Fund Balance with Treasury (FBWT), \$124.8 million in Accounts Receivable, and \$60.6 million in General and Right-to-Use Property, Plant, and Equipment (Net).

FBWT decreased by \$78.1 million (26.3%) in Fiscal Year (FY) 2024 when compared to FY 2023. The decrease is primarily due to FY 2024 having increased accounts receivable balance compared to FY 2023 of \$89.6 million since these funds have not yet been received. The largest contributors to the FY 2024 accounts receivable are Army and Navy.

Intragovernmental Accounts Receivable increased by \$89.6 million (268.3%) in FY 2024 when compared to FY 2023. The increase is primarily due to outstanding accounts receivable balance of \$61.4 million for Army and \$24.7 million for Navy for services provided.

General and Right-to-Use Property, Plant, and Equipment decreased by \$11.1 million (15.5%) in FY 2024 when compared to FY 2023. The overall downward trend continued where new acquisitions are decreasing while accumulated depreciation remains consistent. The decrease is also attributed to the Fourth Estate Network Optimization initiative to consolidate common use IT.

Composition of Liabilities



Total Liabilities of \$181.7 million as of September 30, 2024, primarily consists of Other Federal Employment Benefits for \$128.1 million and Accounts Payable for \$43.3 million.

Statement of Net Cost

The Statement of Net Cost presents the annual cost of operations for DFAS. The net cost of DFAS's 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.

As of September 30	2024	2023	Change	% Change
Gross Costs	\$ 1,736,878,442	\$ 1,660,551,499	\$ 76,326,943	4.6%
Less: Earned Revenue	(1,606,338,559)	(1,564,924,119)	(41,414,440)	2.6%
Net Cost of Operations	\$ 130,539,883	\$ 95,627,380	\$ 34,912,503	36.5%

Gross Costs increased by \$76.3 million (4.6%) in FY 2024 when compared to FY 2023. The increase in Gross Costs is primarily due to higher labor costs of \$54.3 million for pay inflation (employee compensation, awards, and benefits contributions) and an increase in retirement benefit imputed cost adjustment of \$20.3

Earned Revenue increased by \$41.4 million (2.6%) in FY 2024 when compared to FY 2023. The increase is primarily due to the FY 2024 budgeted revenue and billing rates being set at a higher level than FY 2023 due to rising inflation in gross costs.

Net Cost of Operations increased by \$34.9 million (36.5%) in FY 2024 when compared to FY 2023. The increase is primarily due to the smaller growth in Earned Revenue of \$41.4 million compared to the larger growth in Gross Costs of \$76.3 million. Revenue growth was due to higher billing rates and increased customer workload demand. Most of the growth in costs occurred due to rising pay inflation in FY 2024 compared to FY 2023.

Statement of Net Cost, Continued

Gross Costs by Category	2024	2023	Change	% Change
Payroll Expense	\$ 903,290,080	\$ 876,650,426	\$ 26,639,654	3.0%
Employee Benefits Expense	350,285,522	348,690,961	1,594,561	0.5%
Contractor Services	209,254,118	204,900,993	4,353,125	2.1%
Imputed Costs	127,863,375	109,246,060	18,617,315	17.0%
Equipment Expense	84,547,915	66,627,630	17,920,285	26.9%
Lease & Office Expenses	36,684,911	40,061,437	(3,376,526)	(8.4%)
Depreciation & Amortization	14,727,550	22,699,061	(7,971,511)	(35.1%)
Travel Expense	5,243,160	3,880,437	1,362,723	35.1%
Other Expenses	1,969,255	(13,646,116)	15,615,371	114.4%
Miscellaneous Supplies and Materials	1,908,924	1,438,441	470,483	32.7%
Losses on Disposition of Assets	785,435	0	785,435	100.0%
Other Losses	259,280	0	259,280	100.0%
PPA Interest Expense	50,020	81,069	(31,049)	(38.3%)
Bad Debt Expenses	8,897	(78,900)	87,797	111.3%
Total	\$ 1,736,878,442	\$ 1,660,551,499	76,326,943	4.6%

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's behalf.

As of September 30	2024	2023	Change	% Change
Beginning Balance	\$ 235,886,331	\$ 226,059,606	\$ 9,826,725	4.3%
Total Financing Sources	126,928,541	105,454,105	21,474,436	20.4%
Less: Net Cost of Operations	(130,539,883)	(95,627,380)	(34,912,503)	36.5%
Cumulative Results of Operations	\$ 232,274,989	\$ 235,886,331	\$ (3,611,342)	(1.5%)

Statement of Budgetary Resources

The Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2024, 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	2024	2023	Change	% Change
Gross Outlays	\$ 1,594,617,384	\$ 1,516,796,610	\$ 77,820,774	5.1%
Less Actual Offsetting Collections	(1,516,501,975)	(1,542,270,953)	25,768,978	(1.7%)
Net Outlays	\$ 78,115,409	\$ (25,474,343)	\$ 103,589,752	406.6%

Net Outlays increased by \$103.6 million (406.6%) in FY 2024 when compared to FY 2023. This increase is primarily due to the delay in receipt of customer funding in FY 2024. The increase also attributed to higher labor costs of \$54.3 million for pay inflation (employee compensation, awards, and benefits contributions) in FY 2024.

Offsetting Collections decreased by \$25.8 million (1.7%). The decrease is primarily due to untimely receipt of customer funding in FY 2024. This reflected in a large balance in accounts receivables. The largest contributors to the accounts receivable are Army and Navy.

SECTION II

FINANCIALS

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS**

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

COMPARATIVE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS



U.S. Marine Corps Cpl. Cristobal Deanosegura, a team leader assigned to Bravo Company, Battalion Landing Team 1/5, 15th Marine Expeditionary Unit, and a native of California, directs Republic of Korea marines to make movement to a building in the infantry immersion trainer (IIT) at Marine Corps Training Area Bellows, Waimanalo, Hawaii, during Exercise Rim of the Pacific (RIMPAC) 2024, June 30, 2024. The IIT provided immersive scenario-based training to evaluate Marines and partner nations in infantry tactics. Twenty-nine nations, 40 surface ships, three submarines, 14 national land forces, more than 150 aircraft, and 25,000 personnel are participating in and around the Hawaiian Islands June 27 to Aug. 1. The world's largest international maritime exercise; RIMPAC provides a unique training opportunity while fostering and sustaining cooperative relationships among participants critical to ensuring the safety of sea lanes and security on the world's oceans. RIMPAC 2024 is the 29th exercise in the series that began in 1971. (U.S. Marine Corps photo by Cpl. Luis Agostini)

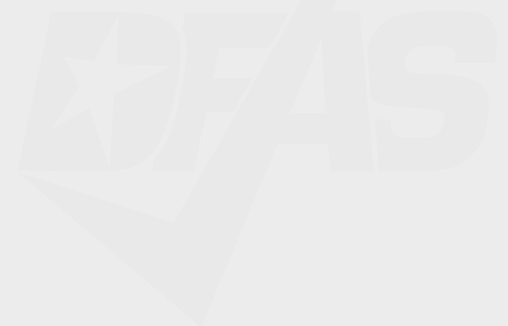
CFO MESSAGE



ROSALIE W. TINSELY

Rosalie Tinsely

2024



Message from the CFO

I am honored to present the Defense Finance and Accounting Service (DFAS) Fiscal Year (FY) 2024 financial statements that support the Agency's 25th consecutive unmodified audit opinion. As we celebrate this milestone, we reflect on our achievements over the years such as migrating to the Defense Departmental Reporting System (DDRS) with other DoD components in FY 2008, upgrading our previous accounting system in FY 2014, implementing the Standard Financial Information Structure (SFIS) in FY 2018, and enhancing the Department of Defense's ability to achieve an unmodified audit opinion by reconciling 72 of its assets valued at over \$54 million for the Real Property Transfer Initiative in FY 2020. More recently, DFAS successfully maintained its unmodified audit opinion despite the challenges brought on by the COVID pandemic and changes like operating in a fully virtual environment for over three years. During that time, we transitioned to the Defense Agencies Initiative (DAI) Enterprise Resource Planning (ERP), implemented G-Invoicing, and proactively leveraged Advanced Analytics (Advana), all in FY 2023.

While our environment has changed significantly, our team has continued to adapt and excel. This year's financial statements and accompanying information provide an insight into the actions and achievements of the Agency that demonstrate our commitment to excellence.

We continue to utilize the Agency Strategy to drive positive changes throughout our organization by focusing on four key priorities: Investing in People, Strengthening Customer Partnerships, Modernizing the Business Environment, and Enhancing Performance. The strategic accomplishments outlined in our Management Discussion and Analysis (MD&A) range from improving data integrity to realizing cost reductions by adapting and migrating systems and providing employees with proven capabilities to expand their skillsets and effectively improve mission results.

As a Working Capital Fund (WCF), DFAS proactively manages customer workload while balancing investments including Agency overhead costs. More than \$69M in efficiencies and cost reductions were applied during the Program Budget Review 24. This includes Civilian Pay optimization, legacy system retirements, as well as data storage reductions and leased space reductions. As a result of these efforts, we were able to apply these efficiencies into customer rates to fully offset inflation and supplier growth. Using this methodology DFAS has provided stable bills to customers for more than a decade despite increased vendor prices, customer workload, and inflation. Furthermore, DFAS is the preferred shared service provider for several non-DoD entities. These organizations play a critical role in offsetting costs as they assume over \$24M annually in overhead expenses that would otherwise be allocated to DoD customers.

Our MD&A highlighted some of the incredible successes DFAS has achieved through the Robotics Process Automation initiative, applying technology to reduce the time our workforce spends on manual processes. As a further testament to our goal of Modernizing the Business Environment, DFAS has diligently pursued reducing legacy systems, leveraging the use of ERPs with better features including comprehensive control architectures. Through this process, DFAS has been able to retire 28 legacy systems through FY 2024 with more systems planned for retirement through FY 2026, which has resulted in a cumulative savings of \$35M that would have otherwise been billed to our customers.

The momentum we have built to produce cost savings will continue as we look ahead into FY 2025 and move forward with additional initiatives designed to add value for our customers. One such initiative is the Enterprise Performance Management (EPM) Cloud for WCF programming and budgeting processes. DFAS has one of the most complex and advanced WCF billing models in the Department and has been providing insight and assisting the DAI team with the design of the EPM Cloud WCF solution which will support our Planning, Programming, Budget, and Execution (PPBE) business cycle. DFAS will be the first WCF to deploy EPM Cloud, replacing multiple offline tools into a single cloud repository with increased processing power, standardized data sets, and an important archiving capacity.

With each new initiative, we uphold our core values of Integrity, Service, and Innovation and remain committed to our mission to deliver financial excellence for our customers. We are proud of our dedicated DFAS team and the collaborative partnerships we have built throughout the Department, for without them our successes would not be possible.



**INDEPENDENT
AUDITOR'S
REPORT
ON THE
FINANCIAL
STATEMENTS**



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 2024 and 2023 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, 2024, and 2023, 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 performed¹; and
- no reportable noncompliance for fiscal year 2024 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)² and other information included with the financial statements³; (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. 24-02, *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, 2024, and 2023; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and

¹ 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.

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

³ Other information consists 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.

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants/ Management Consultants

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the related notes to the financial statements. In our opinion, the DFAS WCF's financial statements present fairly, in all material respects, the DFAS WCF's financial position as of September 30, 2024, and 2023, 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 deficiencies⁴ 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. However, material weaknesses or significant deficiencies may exist that have not been identified.

Our assessment of the current status of the prior significant deficiency is presented in *Appendix I*.

During our fiscal year 2024 audit, 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 warrants DFAS WCF management's attention. We have communicated this matter to DFAS WCF's management, separately in a management letter.

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 guidance⁵.

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.

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, 2024, 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

⁴ 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.

⁵ Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, issued on July 29, 2024. 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.

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 2024 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-DC, LLP

Washington, District of Columbia

November 8, 2024

Appendix I – Status of Prior Year Finding and Recommendation

Our assessment of the current status of the prior year finding is presented below.

Prior Year Finding	Current Status
23-01: FBwT System and Process Deficiencies (Significant Deficiency)	Closed



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



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, IN 46249-0201

November 8, 2024

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 4, 2024, regarding the Fiscal Year 2024 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 also pleased with our continuing efforts to improve the accuracy and reliability of our financial statements. I appreciate the suggestions and opportunities for further enhancements. It is our mission to continue to improve by incorporating your suggestions.

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, Jason Monday, at (317) 212-2674 or james.j.monday.civ@mail.mil.

Sincerely,


Audrey Y. Davis
Director



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

8 November 2024

Mr. Kola Isiaq
Engagement Partner
Williams, Adley and Company, LLP-DC
1030 15th 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 2024 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. On behalf of the Audit Committee as its Chair, I have the highest regard for you and your staff and assurance of a thorough, objective assessment of the financial statements.

DFAS clearly continues to demonstrate its commitment to maintaining an unmodified audit opinion and to sound financial management. DFAS management continually reviews its processes for improvements to ensure sound business processes and internal controls, and I am confident DFAS will continue to enhance controls and improve processes based on your teams' recommendations.

Williams Adley and Company staff and the DFAS team continue to have a collaborative professional working relationship that has again ensured an efficient and successful audit demonstrated by another unmodified opinion.

I appreciate and thank you for your team's continued professionalism, dedication, and hard work in support of sound financial management and reporting at DFAS.

Sincerely,

A handwritten signature in cursive script that reads "D. Smith".

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, 2024 and 2023	2024	2023
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 218,416,030	\$ 296,531,439
Accounts Receivable, Net (Note 3)	123,018,556	33,403,486
Other Assets (Note 5)	2,442,382	2,679,986
Total Intragovernmental	\$ 343,876,968	\$ 332,614,911
Other than Intragovernmental:		
Accounts Receivable, Net (Note 3)	\$ 1,823,519	\$ 181,676
General and Right-to-Use Property, Plant & Equipment (Note 4)	60,627,336	71,761,878
Other Assets (Note 5)	7,674,803	7,902,593
Total Other than Intragovernmental	\$ 70,125,658	\$ 79,846,147
Total Assets	\$ 414,002,626	\$ 412,461,058
Liabilities		
Intragovernmental:		
Accounts Payable	\$ 16,596,539	\$ 15,839,731
Other Liabilities (Note 9)	10,045,542	9,075,402
Total Intragovernmental	\$ 26,642,081	\$ 24,915,133
Other than Intragovernmental:		
Accounts Payable	\$ 26,746,733	\$ 26,181,886
Federal Employee Salary, Leave, & Benefits Payable (Note 7)	104,656,426	99,986,162
Veterans, Pensions, and Post Employment Related (Note 7)	23,433,876	25,057,448
Environmental and Disposal Liabilities (Note 8)	248,521	434,098
Total Other than Intragovernmental	\$ 155,085,556	\$ 151,659,594
Total Liabilities	\$ 181,727,637	\$ 176,574,727
Commitments and Contingencies (Note 11)		
Net Position		
Cumulative Results of Operations - Other Funds	\$ 232,274,989	\$ 235,886,331
Total Net Position	\$ 232,274,989	\$ 235,886,331
Total Liabilities and Net Position	\$ 414,002,626	\$ 412,461,058

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

STATEMENTS OF NET COST

Fiscal Years Ended September 30	2024	2023
Program Costs		
Gross Costs	\$ 1,736,878,442	\$ 1,660,551,499
(Less: Earned Revenue)	(1,606,338,559)	(1,564,924,119)
Net Cost of Operations (Note 12)	\$ 130,539,883	\$ 95,627,380

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

STATEMENTS OF CHANGES IN THE NET POSITION

Fiscal Years Ended September 30	2024	2023
Cumulative Results of Operations		
Beginning Balances	\$ 235,886,331	\$ 226,059,606
Transfers in/out without reimbursement	(934,834)	(770,589)
Imputed financing	127,863,375	109,246,060
Other	0	(3,021,366)
Net Cost of Operations (Note 12)	130,539,883	95,627,380
Net Change in Cumulative Results of Operations	\$ (3,611,342)	\$ 9,826,725
Net Position	\$ 232,274,989	\$ 235,886,331

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

STATEMENTS OF BUDGETARY RESOURCES

Fiscal Years Ended September 30	2024	2023
Budgetary Resources		
Unobligated Balance from prior year budget authority, net (discretionary and mandatory)	\$ 241,741,675	\$ 219,344,377
Contract Authority (discretionary and mandatory)	21,250,503	6,532,199
Spending Authority from offsetting collections (discretionary and mandatory)	1,535,817,656	1,534,559,416
Total Budgetary Resources	\$ 1,798,809,834	\$ 1,760,435,992
Status of Budgetary Resources		
New obligations and upward adjustments (total)	\$ 1,650,823,645	\$ 1,562,143,084
Unobligated balance, end of year		
Apportioned, unexpired accounts	147,986,189	198,114,254
Unapportioned, unexpired accounts	0	178,654
Unexpired unobligated balance, end of year	\$ 147,986,189	\$ 198,292,908
Total Budgetary Resources (Note 13)	\$ 1,798,809,834	\$ 1,760,435,992
Outlays, Net:		
Agency Outlays, net (discretionary and mandatory)	\$ 78,115,409	\$ (25,474,343)

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's Chief Financial Officer.

1.B. Basis of Presentation

The financial statements have been prepared to report the financial position, financial condition, and results of DoD operations, as required by the Chief Financial Officers Act of 1990, as amended and expanded by the Government Management Reform Act of 1994 and other applicable legislation. The financial statements account for all resources for which DFAS is responsible, unless otherwise noted. 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.

To the extent possible, the financial statements have been prepared from the accounting records of DFAS in accordance with the formats prescribed by Office of Management and Budget (OMB) Circular A 136, Financial Reporting Requirements, and with U.S. generally accepted accounting principles (GAAP) for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB).

1.C. Basis of Accounting

DFAS's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from feeder systems and accruals made for

major items such as payroll expenses, accounts payable, and environmental liabilities.

Financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

1.D. 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 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.E. Fund Balance with Treasury (FBWT)

DFAS’s monetary financial resources of collections and disbursements are maintained in U.S. Treasury (Treasury) accounts. The disbursing offices of DFAS process the majority of DFAS’s cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports

to the Treasury on checks issued, electronic fund transfers, inter-agency 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.

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. DFAS does not have a separate FBWT account. Instead, the Treasury maintains an account for DFAS's collection and disbursement activities.

On a monthly basis, DFAS's 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's operations are recorded in the financial records during the fiscal year.

For additional information, see Note 2, *Fund Balance with Treasury*.

1.F. 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 aged over 360 days to estimate the allowance for uncollectible 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.

For additional information, see Note 3, *Accounts Receivable, Net*.

1.G. General and Right-to-Use Property, Plant, & Equipment (PP&E)

DFAS capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General and Right-to-Use PP&E (leases), whether or not they meet the definition of any other PP&E category.

General and Right-to-Use 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. Right-to-Use PP&E, which is related to non-federal leases, are amortized over the life of the lease including the optional extension based upon policy and not estimated useful lives.

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 and Right-to-Use 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 and Right-to-Use PP&E on their Balance Sheet.

For additional information, see Note 4, *General and Right-to-Use PP&E, Net* and Note 10, *General and Right-to-Use Leases*.

1.H. 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, and 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.

For additional information, see Note 5, *Other Assets*.

1.I. Leases

SFFAS 54 states, when a lease substantially transfers all the benefits and risks of ownership to the entity, the entity records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The entity records the asset and liability at the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor). The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The agency, as the lessee, receives the use and possession of leased property (e.g., facilities or equipment) from a lessor in exchange for payments of funds.

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47, Reporting Entity whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

A right-to-use lease asset deemed "operating leases" for budgetary treatment does not substantially transfer all the benefits and risks of ownership to the Department. Leases that do not fit the requirements of right-to-use are expensed appropriately.

For additional information, see Note 10, *General and Right-to-Use Leases*.

1.J. 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 DFAS absent proper budget authority. Liabilities covered by budgetary resources are funded by the 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.

For additional information, see Note 6, *Liabilities Not Covered by Budgetary Resources*.

1.K. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of DFAS's 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 8, *Environmental and Disposal Liabilities*.

1.L. Commitments and Contingencies

DFAS recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 11, Commitments and Contingencies. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

DFAS does report environmental contingencies separate from legal contingencies. The environmental contingencies are reported in Note 8, Environmental and Disposal Liabilities. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 11, *Commitments and Contingencies*.

1.M. Federal Employee and Veteran 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 9,640 in FY 2023 and 9,445 in FY 2024. The Federal Employees' Group Life Insurance Program (FEGLI) the cost factor was 0.02% in both FY 2023 and FY 2024. The cost factor for employees covered by Civil Service Retirement System (CSRS) was 50.40% in FY 2023 and 56.50% in FY 2024. The cost factor for the Federal Employees Retirement System (FERS) was 22.40% in FY 2023 and 24.70% in FY 2024.

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 \$36.9 million for FY 2023 and \$38.7million for FY 2024. Employees participating in CSRS receive no matching contributions from DFAS.

1.N. 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 DFAS customers through a reimbursable order process. The majority of services rendered by DFAS are provided to the Military Departments and other DoD agencies.

DFAS 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.

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 fluctuations 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.

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.O. 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.P. Budgetary Resources

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

The following budgetary terms are commonly used:

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

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

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

Offsetting collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than

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

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

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

1.Q. Use of Estimates

DFAS's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates 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.R. Tax Exempt Status

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

1.S. 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.T. 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.U. 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.V. 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, administration, 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's financial position because of related cost adjustments from vendors.

The total cost adjustments from vendors cannot be reasonably estimated for FY 2024, but management believes the amount is immaterial.

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

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the FY 2023 Balance Sheet and the related footnotes was modified to be consistent with the FY 2024 presentation. The mapping of U.S. Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 7, *Federal Employee and Veteran Benefits Payable*, Note 9, *Other Liabilities*, and Note 14, *Reconciliation of Net Cost to Net Outlays*.

1.X. Reclassifications

Certain FY 2023 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	2024	2023
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	\$ 147,986,189	\$ 198,114,254
Unavailable	0	178,654
Subtotal	\$ 147,986,189	\$ 198,292,908
Obligated Balance not yet Disbursed	\$ 239,856,788	\$ 227,099,293
 Non-FBWT Budgetary Accounts:		
Unfilled Customer Orders without		
Advance	\$ 40,759,400	\$ (12,941,847)
Contract Authority	(86,042,008)	(79,970,038)
Receivables and Other	(124,144,339)	(35,948,877)
Total Non-FBWT Budgetary Accounts	\$ (169,426,947)	\$ (128,860,762)
Total FBWT	\$ 218,416,030	\$ 296,531,439

The Treasury records cash receipts and disbursements on DFAS's behalf. Funds are available only for the purposes for which they were received. DFAS's Fund Balance 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.

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

Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budget authority, such as appropriations.

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

Note 2. Fund Balance with Treasury, continued

budget authority. Contract Authority indicates amounts that have 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.

Unfilled Customer Orders Without Advance and Receivables and Other Income Earned 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 DFAS's balance as reported by Treasury. The difference between FBWT in 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 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 DFAS's general ledger accounts.

Note 3. Accounts Receivable, Net

As of September 30	2024		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 123,018,556	\$ N/A	\$ 123,018,556
Nonfederal Receivables (From the Public)	1,832,417	(8,897)	1,823,519
Total Accounts Receivable	\$ 124,850,973	\$ (8,897)	\$ 124,842,075

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 (From the Public)	181,676	(0)	181,676
Total Accounts Receivable	\$ 33,585,162	\$ 0.00	\$ 33,585,162

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

The largest contributors for the Accounts Receivable balance are the Army and Navy which had receivable balances of \$61.4 million and \$24.7 million respectively.

Note 4. General and Right-to-Use PP&E, Net

As of September 30	2024				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Leasehold Improvements	S/L	Lease term	\$ 147,864,317	\$ (139,080,690)	\$ 8,783,627
Software	S/L	2-5 or 10	100,763,485	(62,481,786)	38,281,699
General Equipment	S/L	Various	69,089,994	(58,272,945)	10,817,049
Construction-in-Progress	N/A	N/A	2,744,961	N/A	2,744,961
Total General PP&E			\$320,462,757	\$ (259,835,421)	\$ 60,627,336

As of September 30	2023				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
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
Total General PP&E			\$363,923,048	\$ (292,161,170)	\$ 71,761,878

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 and Right-to-Use Property, Plant, & Equipment (PP&E) was \$320.5 million at September 30, 2024 and \$363.9 million at September 30, 2023. Such amounts include Software with a cost of \$100.8 million in 2024 and \$114.2 million in 2023. Of those Software amounts, Internal Use Software in Development (IUSD) was \$7.5 million in 2024 and \$6.7 million 2023. 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 \$0.93 million and \$0.80 million net book value of real property to the military services, in FY 2024 and FY 2023, respectively.

DFAS does not have any Right-to Use leases as defined by SFFAS 54. See Note 10, *General and Right-to-Use Leases*.

Note 4. General and Right-to-Use PP&E, Net, continued

As of September 30	2024	2023
General PP&E, Net beginning of year	\$ 71,761,878	\$ 91,711,507
Capitalized acquisitions	5,572,558	6,541,386
Dispositions	(785,436)	0
Transfers in/(out) without reimbursement	(934,834)	(770,589)
Revaluations (+/-)	(259,281)	(3,021,365)
Depreciations expense	(14,727,550)	(22,699,061)
General PP&E, Net end of year	\$ 60,627,336	\$ 71,761,878

The amount presented as "dispositions" in the table above consists of losses that occur when an asset with a book value is disposed of or written off.

The amount presented as "reevaluations" in the table above consists of losses that occur when there is a price adjustment for an asset that is capitalized and depreciated.

Note 5. Other Assets

As of September 30	2024	2023
Intragovernmental		
Advances and Prepayments	\$ 2,442,382	\$ 2,679,986
Total Intragovernmental	\$ 2,442,382	\$ 2,679,986
Other than Intragovernmental		
Advances and Prepayments	\$ 7,674,803	\$ 7,902,593
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(7,674,803)	(7,902,593)
Net Other than Intragovernmental	\$ 0.00	\$ 0.00
Total Other Assets	\$ 2,442,382	\$ 2,679,986

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

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

Note 6. Liabilities Not Covered by Budgetary Resources

As of September 30	2024	2023
Intragovernmental Liabilities		
Other	\$ 4,389,256	\$ 4,497,645
Total Intragovernmental Liabilities	\$ 4,389,256	\$ 4,497,645
Nonfederal Liabilities		
Other Federal Employment Benefits	\$ 27,347,666	\$ 29,144,516
Environmental and Disposal Liabilities	248,521	434,098
Other Liabilities	0	0
Total Nonfederal Liabilities	\$ 27,596,187	\$ 29,578,614
Total Liabilities Not Covered by Budgetary Resources	\$ 31,985,443	\$ 34,076,259
Total Liabilities Covered by Budgetary Resources	\$ 149,742,194	\$ 142,498,468
Total Liabilities	\$ 181,727,637	\$ 176,574,727

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, *Current and Former Employee and Veterans Benefits Payable* for additional details and disclosures.

Refer to Note 8, *Environmental and Disposal Liabilities* for additional details and disclosures.

Note 7. Current and Former Employee and Veterans Benefits Payable

As of September 30	2024		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	\$ 23,433,876	\$ 0.00	\$ 23,433,876
Other	104,656,426	(100,742,636)	3,913,790
Total Other Benefits	128,090,302	(100,742,636)	27,347,666
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	\$ 128,090,302	\$ (100,742,636)	\$ 27,347,666
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	10,045,542	(5,656,286)	4,389,256
Total Other Federal Employee and Veteran Benefits Payable	\$ 138,135,844	\$ (106,398,922)	\$ 31,736,922
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	99,986,162	(95,899,094)	4,087,068
Total Other Benefits	125,043,610	(95,899,094)	29,144,516
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	\$ 125,043,610	\$ (95,899,094)	\$ 29,144,516
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	9,075,402	(4,577,757)	4,497,645
Total Other Federal Employee and Veteran Benefits Payable	\$ 134,119,012	\$ (100,476,851)	\$ 33,642,161

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's 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 2024 is \$23,433,876 and FY 2023 was \$25,057,448. Other benefit-related payables represent the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance, and voluntary separation incentive payments.

Note 8. Environmental and Disposal Liabilities

As of September 30	2024	2023
Environmental Liabilities — Non-Federal		
Other Accrued Environmental Liabilities — Non-BRAC		
Asbestos	\$ 248,521	\$ 434,098
Total Environmental and Disposal Liabilities	\$ 248,521	\$ 434,098

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.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

DFAS uses engineering estimates and independently validated models 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.

Note 8. Environmental and Disposal Liabilities, continued

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

DFAS revises estimates resulting 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.

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

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

Note 9. Other Liabilities

As of September 30	2024		
	Current	Noncurrent	Total
Intragovernmental			
Other Liabilities reported on Note 7, <i>Federal Employee and Veterans Benefits Payable</i>	\$ 7,600,868	\$ 2,444,674	\$ 10,045,542
Total Intragovernmental Other Liabilities	\$ 7,600,868	\$ 2,444,674	\$ 10,045,542
Total Other Liabilities	\$ 7,600,868	\$ 2,444,674	\$ 10,045,542

As of September 30	2023		
	Current	Noncurrent	Total
Intragovernmental			
Other Liabilities reported on Note 7, <i>Federal Employee and Veterans Benefits Payable</i>	\$ 6,585,889	\$ 2,489,513	\$ 9,075,402
Total Intragovernmental Other Liabilities	\$ 6,585,889	\$ 2,489,513	\$ 9,075,402
Total Other Liabilities	\$ 6,585,889	\$ 2,489,513	\$ 9,075,402

Note 10. General and Right-to-Use Leases

As of September 30	2024		
	Asset Category		
	Land and Buildings	Equipment	Total
Federal			
Fiscal Year			
2025	\$ 22,644,680	\$ 531,223	\$ 23,175,903
2026	23,210,797	548,222	23,759,019
2027	18,759,959	565,765	19,325,724
2028	8,915,187	583,870	9,499,057
2029	5,633,405	602,553	6,235,958
After 5 Years	0	621,835	621,835
Total Federal Future Lease Payments	\$ 79,164,028	\$ 3,453,468	\$ 82,617,496

Starting in FY 2024, federal agencies are required to report a right-to-use lease asset and a corresponding lease liability for material non-intragovernmental, non-short-term contracts when the reporting entity has the right to control access to and/or obtain economic benefits from the use of real property, equipment, or other assets. As of September 30, 2024, DFAS had no leases that fall within this category.

DFAS is the lessee on all DFAS leases, all of which are categorized as long-term, intragovernmental leases. Lease expenses are for the rental of facilities and equipment. An intragovernmental long-term lease does not substantially transfer all the benefits and risk of ownership. Payments for long-term intragovernmental leases are expensed over the lease term as they become payable. Future year projections use the Consumer Price Index.

An embedded lease describes contracts or agreements that contain lease component(s) and non-lease component(s), such as service components, and serve a primary purpose attributable to non-lease components. In regard to SFFAS 54 implementation, DFAS has elected a transitional accommodation during which time an entity may elect not to assess whether contracts that exist or are entered into during this time meet the criteria of an embedded lease as of October 1, 2023 through the end of the accommodation period. Contracts entered into after the accommodation period will be reviewed to determine if they meet the criteria of an embedded lease and are subject to SFFAS 54.

Note 11. Commitments and Contingencies

The Defense Finance and Accounting Services 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 would record such contingent liabilities in Note 9, *Other Liabilities*. In the event of an adverse judgement against the Government, some of the liabilities may be payable from the U. S. Treasury Judgement Fund.

DFAS is not aware of any contingent liabilities for legal actions in FY 2024.

Note 12. General Disclosures Related to the Statements of Net Cost

Fiscal Years Ended September 30	2024	2023
Gross Cost	\$ 1,736,878,442	\$ 1,660,551,499
Less: Earned Revenue	(1,606,338,559)	(1,564,924,119)
Total Net Costs	\$ 130,539,883	\$ 95,627,380

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 13. Disclosures Related to the Statements of Budgetary Resources

Fiscal Years Ended September 30	2024	2023
Intragovernmental:		
Unpaid	\$ 43,698,437	\$ 23,360,878
Prepaid/Advanced	2,442,382	2,679,986
Total Intragovernmental	\$ 46,140,819	\$ 26,040,864
Non-Federal:		
Unpaid	\$ 45,290,374	\$ 58,694,557
Prepaid/Advanced	7,674,803	7,902,593
Total Non-federal	\$ 52,965,177	\$ 66,597,150
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 99,105,996	\$ 92,638,014

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 Budget. 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, 2024 is performed. There are no differences between the SBR and the SF-133, Report on Budget Execution and Budgetary Resources & Budget Program and

Note 14. Reconciliation of Net Cost of Operations to Net Outlays

As of September 30	2024		
	Intragovernmental	Other than Intragovernmental	Total
Net Cost of Operations (SNC)	\$ (1,027,447,609)	\$ 1,157,987,492	\$ 130,539,883
Components of the Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment depreciation	\$ 0	\$ (14,727,550)	\$ (14,727,550)
Property Plant, and Equipment disposal	0	(1,979,550)	(1,979,550)
Property, Plant, and Equipment	0	875,868	875,868
Increase (decrease) in assets:			
Accounts Receivable	87,069,679	1,641,843	88,711,522
Advances and Prepayments	0	(227,790)	(227,790)
Other Assets	(237,604)	0	(237,604)
(Increase)/decrease in liabilities:			
Accounts Payable	1,788,582	(564,848)	1,233,734
Environmental and Disposable Liabilities	0	185,577	185,577
Federal Employee Salary, Leave and Benefits	0	(4,670,265)	(4,670,625)
Veterans, Pension, and Post employment related Benefits	0	1,623,573	1,623,573
Other Liabilities	(970,140)	0	(970,140)
Financing sources:			
Imputed Cost	(127,863,375)	0	(127,863,375)
Total Components of Net Cost That Are Not Part of Net Outlays	\$ (40,212,858)	\$ (17,843,142)	\$ (58,056,000)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	\$ (256,130)	\$ 4,952,822	\$ 4,696,692
Financing Source:			
Transfers out (in) without Reimbursement	934,834	0	934,834
Total Components of Net Outlays That Are Not Part of Net Cost	\$ 678,704	\$ 4,952,822	\$ 5,631,526
Net Outlays	\$ (1,066,981,763)	\$ 1,145,097,172	\$ 78,115,409
Agency Outlays, Net, Statement of Budgetary Resources			\$ 78,115,409
Reconciling Differences			\$ 0

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SECTION III

OTHER INFORMATION (UNAUDITED)


**SUMMARY OF FINANCIAL STATEMENT AUDIT
AND MANAGEMENT ASSURANCES**

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

NOTES PAGES

U.S. Army M1A1 Abrams tanks prepare to fire as part of Eager Lion 2024 at Training Area 5, Jordan, May 15, 2024. Eager Lion 2024 is a multilateral exercise, with 33 participating nations, hosted by the Hashemite Kingdom of Jordan, designed to exchange military expertise, and improve interoperability among partner nations, and considered the capstone of a broader U.S. military relationship with the Jordanian Armed Forces. Jordan is one of U.S. Central Command's strongest and most reliable partners in the Levant sub-region. (U.S. Army photo by Spc. Nataja Ford)





**SUMMARY OF
FINANCIAL
STATEMENT AUDIT
AND MANAGEMENT
ASSURANCES**

Table 1. Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
No Material weaknesses	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0


Table 2. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Agency's Service Provider Operations	1	0	0	0	0	1
<i>Total Weaknesses</i>	1	0	0	0	0	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No Material Weaknesses	0	0	0	0	0	0
<i>Total Weaknesses</i>	0	0	0	0	0	0

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No Non-Conformances	0	0	0	0	0	0
<i>Total non-conformances</i>	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted



GLOSSARY OF ACRONYMS AND ABBREVIATIONS

Acronym	Description
ADA	Anti-Deficiency Act
Advana	Advancing Analytics
AFR	Agency Financial Report
Agency	Defense Finance and Accounting Service
AI	Artificial Intelligence
AICPA	American Institute of Certified Public Accountants
AOR	Accumulated Operating Results
Bot	Robotics Process Automation tool
CAP	Corrective Action Plan
CAPS-W	Computerized Accounts Payable System-Windows
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CMR	Cash Management Report
CPI	Consumer Price Index
CSRS	Civil Service Retirement System
CUEC	Complimentary User Entity Control
DAI	Defense Agencies Initiative
DAMP	Deficiency Assessment and Management Process
DARPA	Defense Advanced Research Projects Agency
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System
DCMA	Defense Contract Management Agency
DDRS	Defense Departmental Reporting System
DEAMS	Defense Enterprise Accounting and Management System
DeCA	Defense Commissary Agency
DEIA	Diversity, Equity, Inclusion, and Accessibility
DFAS	Defense Finance and Accounting Service
DHP-CRM	Defense for Health Affairs-Contract Resource Management
DISA	Defense Information Systems Agency
DNA	Defense Industrial Financial Management System/NAVAIR Industrial Material Management System/Automated Bill of Materials
DoD	Department of Defense
DoDIG	Defense Inspector General
DOL	Department of Labor
DPAS	Defense Property Accountability System
DRRT	Department Reconciliations and Reporting Tool

SECTION III: OTHER INFORMATION (UNAUDITED)

Acronym	Description
DTPAT	DFAS Tactical Processing Analysis Tool
DTRA	Defense Threat Reduction Agency
DWCF	Defense Working Capital Fund
ELAN	Enterprise Local Area Network
EPM	Enterprise Performance Management
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees' Group Life Insurance
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FERS-FRAE	FERS-Further Revised Annuity Employees
FERS-RAE	FERS-Revised Annuity Employees
FFMIA	Federal Financial Management Improvement Act
FISCAM	Federal Information System Controls Audit Manual
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation
FY	Fiscal Year
GAO	Government Accountability Office
GFEBs	General Fund Enterprise Business System
GSA	General Services Administration
IAPS	Integrated Accounts Payable System
ICAM	Identity, Credential, & Access Management
IPA	Independent Public Accountant
IT	Information Technology
IUSD	Internal Use Software in Development
MD&A	Management's Discussion and Analysis
MERHCF	Medicare-Eligible Retiree Health Care Fund
MRF	Military Retirement Fund
MRS	Military Retirement System
MW	Material Weakness
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations

Acronym	Description
NOR	Net Operating Results
OGC	Office of General Counsel
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P2P	Procure to Pay
PDA	Presidential Drawdown Authority
PP&E	Property, Plant, and Equipment
PPBE	Planning, Programming, Budget, and Execution
RCRA	Resource Conservation and Recovery Act
RMIC	Risk Management and Internal Controls
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
SFIS	Standard Financial Information Structure
SIPPS	Service Integrated Personnel and Pay Systems
SNC	Statement of Net Cost
SoA	Statement of Assurance
SOC	System and Organization Control
SOD	Statement of Differences
SSAE-18	Standards for Attestation Engagement No. 18
TBD	To Be Determined
TFM	Treasury Financial Manual
TI	Treasury Index
Treasury	U.S. Department of Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code
USMC	United States Marine Corps
UoT	Universe of Transactions
U.S. GAAP	United States Generally Accepted Accounting Principles
WCF	Working Capital Fund



NOTES PAGES

SECTION III: OTHER INFORMATION (UNAUDITED)



2024 AGENCY FINANCIAL REPORT

DEFENSE FINANCE AND ACCOUNTING SERVICE