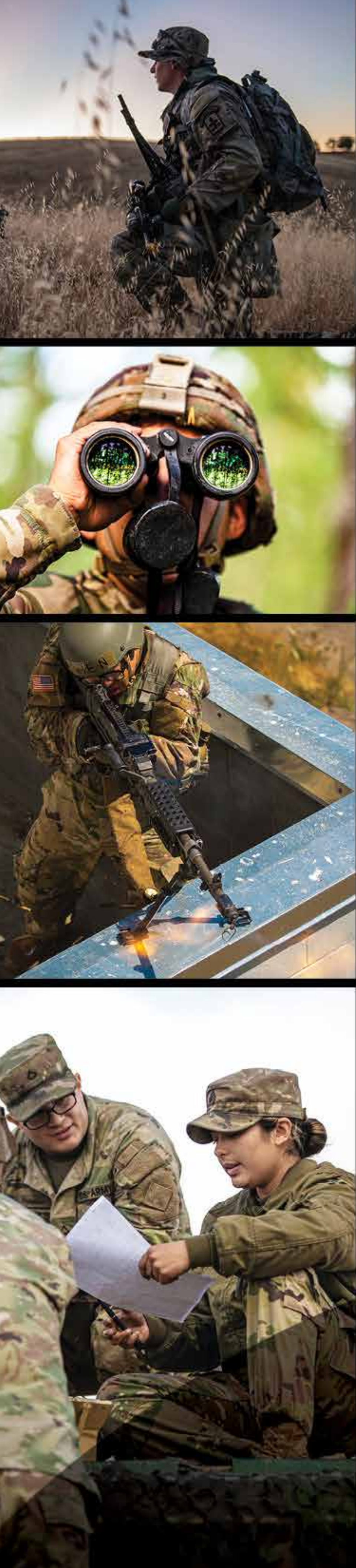
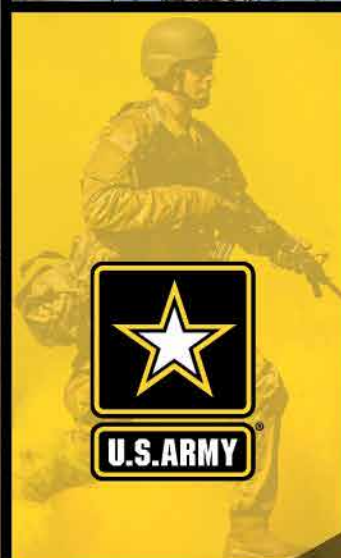








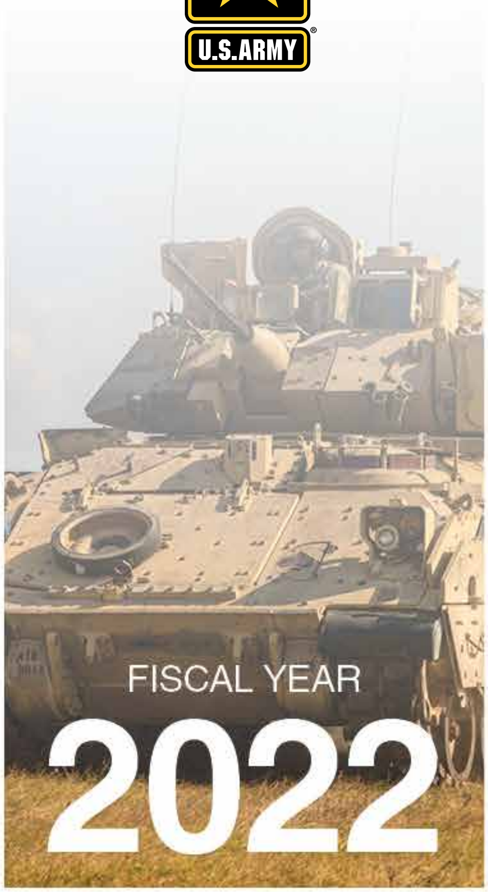

FISCAL YEAR

2022

BUILDING AMERICA'S ARMY: READY AND RESILIENT

UNITED STATES ARMY ANNUAL FINANCIAL REPORT

U.S.ARMY



FISCAL YEAR 2022

READY AND RESILIENT

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"Our people are our greatest strength, and we are committed to selecting the best possible leaders and equipping them with the tools and resources to care for their Soldiers' well-being both physically and mentally."

FISCAL YEAR

2022

UNITED STATES ARMY ANNUAL FINANCIAL REPORT

For 247 years, the United States Army has continued to lead the way as the first line of defense as it trains, sustains, mobilizes, and protects strategic land forces worldwide. The Army has adapted to increased demands from Combatant Commands around the world as it met the challenges of COVID-19, the evacuation and withdrawal from Afghanistan, and multiple natural disasters head on. Despite these challenges, the Army provided the bulk of the forces to reassure NATO allies of our commitment to defend against foreign threats. The Army remains ready and poised to move forward and build on our strong foundational strategic priorities of people, modernization, and readiness.

Putting the Army on a sustainable strategic path is a top priority, amidst the uncertainty following two decades of counterinsurgency and counterterrorism operations. The Army must be equipped and capable of conducting multi-domain operations despite fiscal pressures and difficult decisions as we face off with different adversaries at the same time. Project Convergence, which brings together our sister Services to test new operational concepts and digital technologies, demonstrates our commitment to innovation and experimenting with new ways of operating that will help us win the future fight. Ensuring the Army becomes more data-centric and can conduct operations in contested environments will lead to success in future battlefields. Technology is at the forefront of so many Army programs and emphasizes the requirement of using data to drive decision-making, project power in cyberspace, and defend our networks, weapons, and data from cyber threats. Another imminent threat to the Army's future readiness is climate change. We must continue our efforts to be resilient by adapting our installations, acquisition programs, and training to be able to operate in a changing environment.

Our people are the cornerstone of America's Army and at the forefront of half of my objectives: build positive command climates at scale across all Army formations; reduce harmful behaviors in our Army; and strategically adapt the way we recruit and retain talent into the Army. Our people are our greatest strength, and we are committed to selecting the best possible leaders and equipping them with the tools and resources to care for their Soldiers' well-being both physically and mentally. A strong, healthy, resilient, trained force is the most significant indicator of our readiness.

In support of my priorities and Army's mission, timely, accurate, and reliable information is fundamental to achieving success. To make informed decisions, Army leadership depends highly on financial data. The FY 2022 Army Annual Financial Report includes descriptions of material weaknesses that represent the areas for which we have been dedicated to improving the reliability and completeness of financial data, by developing and implementing corrective actions to remediate prior and current year audit findings. It is our responsibility and goal to always be financially transparent to ensure the public is informed of the Army's stewardship of taxpayer dollars. The Army's strategic priorities directly align with our continued efforts to increase accuracy of our financial reporting while remaining transparent.

Christine E. Wormuth

CHRISTINE E. WORMUTH
Secretary of the Army

"With a focus on recruiting and retention of top talent, we will continue to improve our underlying business practices that support the financial statements."

FISCAL YEAR

2022

UNITED STATES ARMY ANNUAL FINANCIAL REPORT

I am pleased to present the Fiscal Year 2022 Annual Financial Report (AFR) for the United States Army. As we emerge from this challenging period in American history and recover and rebuild from the trials and unforeseen events of the past several years, the Army's continued commitment to responsible stewardship over the resources entrusted to it by the American taxpayers has not wavered.

The Army mission is to serve, protect, and defend our nation. Successful Army missions rely on timely, accurate and reliable information, including information regarding financial resources. Through the pillars of auditability and financial stewardship, the Army is dedicated to upholding sound financial management and developing and maintaining a culture that expects auditable records at all Army levels. Across the Army, leaders and commanders at all levels take an active role in improving transparency and accountability.

The Assistant Secretary of the Army for Financial Management and Comptroller [ASA (FM&C)] has provided the Army leadership with financial data required for decision-making, while also undergoing rigorous financial statement audits. The Army's constant emphasis on audit and business process modernization directly correlates to our goal to achieve sustainable auditability. The findings identified by the independent auditors in this report reflect the areas requiring the most attention from the Army for remediation to ensure our financial data is accurate. The Army's current and future corrective actions will address these findings and further enhance the Army's operations and its preeminent role in today's world.

The Army leadership has maintained its focus on transforming the Army's financial practices to improve performance enabled by people, processes, and technology. With a focus on recruiting and retention of top talent, we will continue to improve our underlying business practices to support the financial statements. Army has prioritized achieving technical and data-centric advances for the vital goal of attaining an unmodified audit opinion on the Army's financial statements. We are committed to demonstrating that everything that has an impact on the financial statements is an accurate representation of Army's activity from funds receipt through financial reporting.

Caral E. Spangler

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

> *Financial stewardship isn't just about ensuring the right numbers are in the right columns on some spreadsheet. The very core of our responsibility to our American citizens is ensuring every penny spent by our Army builds Soldier readiness and lethality to deter aggression and fight and win our nation's wars at the time and place of our choosing today, in 2030 and beyond!"*

COL Paige M. Jennings
Commander, U.S. Army Financial Management Command

BUILDING AMERICA'S ARMY: READY AND RESILIENT

SECTION 1: Management's Discussion and Analysis

ARMY GENERAL FUND OVERVIEW

Today the United States Department of the Army (Army) consistently provides trained and ready forces for combat operations to a standard of excellence. A sustainable Army is an innovative Army that can adapt rapidly to challenges of the future. To maintain our land power dominance, we continue concentrating our efforts on these strategic priorities—Readiness, Modernization, Reform, and People—to ensure America's Army is always ready, now and in the future. Strategic efforts in those areas are coupled with our enduring priorities to take care of our Soldiers, Civilians, and their Families; to re-commit to the Army values and warrior ethos that guide us; and to strengthen relationships with allies and partners.

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

For fiscal year (FY) 2022, Army General Fund (GF) received $183 billion in appropriated funds. The Army GF's received budgetary resources to offset the impact of and efforts related to the COVID-19 global pandemic in the amount of approximately $1.3 billion. The Army's primary uses for *Coronavirus Aid, Relief, and Economic Security* (CARES) *Act* (P.L. 116-136) funding included:

- Purchase of medical supplies and equipment
- Purchase of non-medical personal protective equipment (PPE)
- Enhancements of information technology (IT) equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training
- Increased cost of conducting initial entry and advanced individual training with appropriate distancing measures
- Increased cleaning and sanitizing contracts
- Cost of isolation measures to include stocking Meals, Ready to Eat (MREs), to be served to Soldiers, in lieu of dining facility operations to maintain social distancing.

The Army continues to support other federal agencies participating in Operation Warp Speed through Army contracting support, facilitating the procurement of supplies that will be needed to distribute and administer approved COVID-19 vaccines.

The Army is a performance-based organization and as such is committed to working towards specific measurable goals derived from a defined mission to continually improve operations. The following discussion provides evaluation of the FY 2022 Army GF performance aligned with the Army's four principal strategic goals: readiness, modernization, reform, and people.

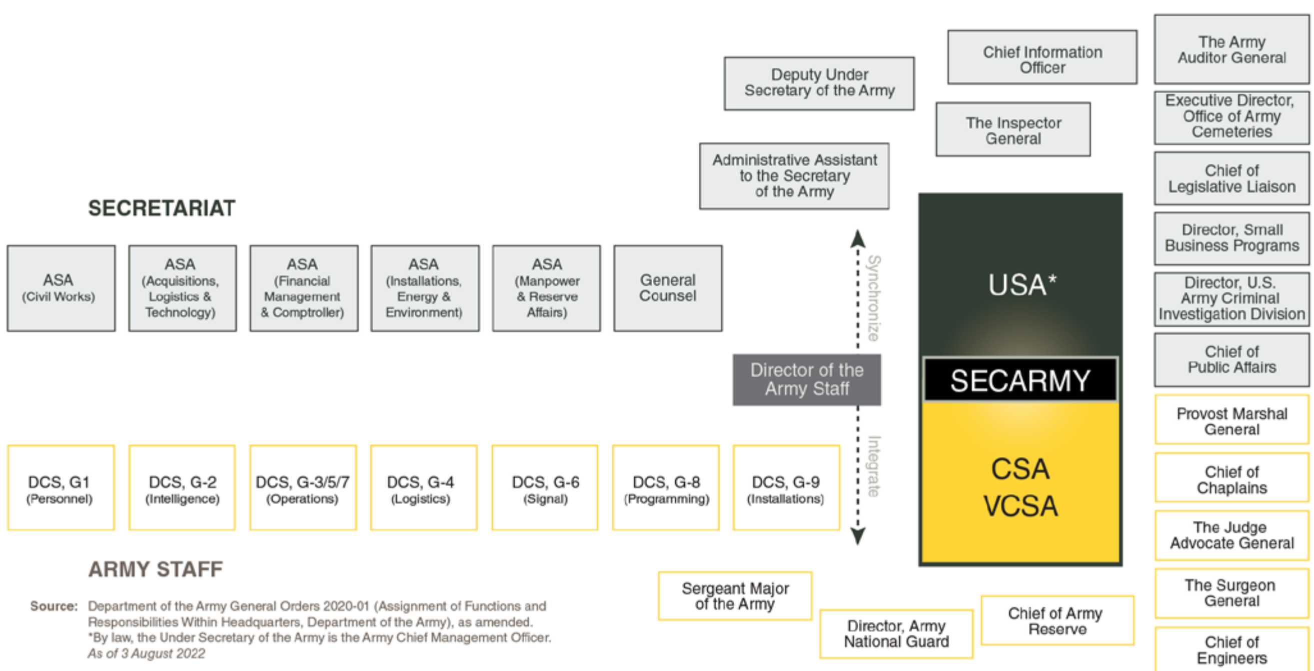
MISSION AND ORGANIZATION OF THE ARMY

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

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

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

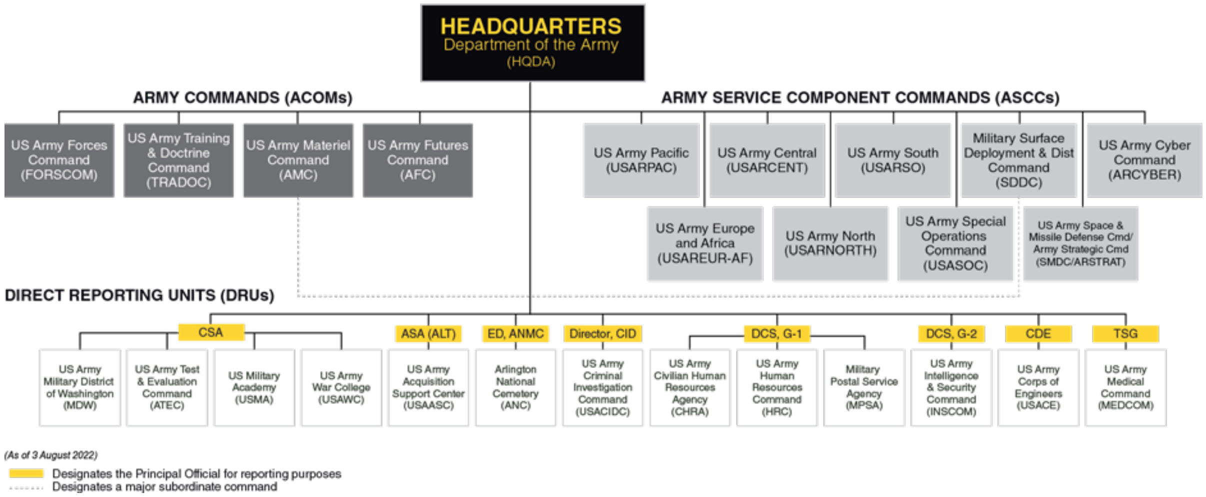
Figure 1. Headquarters, Department of the Army (HQDA)



Source: Department of the Army General Orders 2020-01 (Assignment of Functions and Responsibilities Within Headquarters, Department of the Army), as amended.
*By law, the Under Secretary of the Army is the Army Chief Management Officer.
As of 3 August 2022

Organizations reporting to HQDA as part of the Army's command structure (Figure 2) include the Army Commands (ACOMs), Army Service Component Commands (ASCCs), and Direct Reporting Units (DRUs). The operational Army consists of numbered armies, corps, divisions, brigades, and battalions that conduct the full range of military operations. The institutional Army supports the operational Army by providing the infrastructure necessary to man, train, equip, deploy, and ensure the readiness of all Army forces.

Figure 2. Army Command Structure



PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – GENERAL FUND

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

Readiness

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

Training must be tough, realistic, iterative, and dynamic to support Multi-Domain Operations. The Multi-Domain Army of 2035 introduces a transformational change to joint warfighting. By 2035, the Army will enable the Joint Force to maneuver and prevail from competition through conflict with a calibrated force posture of multi-domain capabilities that provide overmatch through speed and range at the point of need. Dynamic employment and posture of Army forces during competition will provide range in depth to penetrate complex anti-access/area-denial (A2/AD) systems and achieve cross-domain effects, creating opportunities and providing options to deter, deescalate, or promptly transition to win the first battle. Army formations and capabilities will provide the necessary speed, both physical and cognitive, to achieve decision dominance required for a faster-paced, distributed, and complex operating environment. The Multi-Domain Army will set the conditions for the Joint Force to fight and win integrated campaigns necessary to defeat state actors. All training must contribute to accomplishing the mission and achieving the Vision. Field Manual 7-0, Training (14 June 2021) provides doctrinal guidance on training leaders and Soldiers.

Threat capabilities should include weapons of mass destruction; advanced cyberspace, electronic warfare, space, and contested space capabilities; information operations/warfare; precision air and ground high-volume and long-range fires; advanced integrated anti-access/area-denial and air defense systems; and complex terrain including subterranean and dense urban areas. The training environment needs to provide leaders as many training repetitions as possible to sustain proficiency in their core tasks.

(U.S. Army photo by Staff Sgt. Christopher Dennis)

The complexities and speed of training conditions with command and control (C2) will develop leaders and units able to quickly adapt and exploit temporary windows of opportunity in the Operational Environment (OE).

Training environments must provide the conditions for large scale combat operations and multi-domain operations. Commanders should use the intelligence-informed regional decisive action training environments (DATE) to construct scenarios. Using DATE ensures training for land operations is dynamic and complex, while providing continuity of training conditions across all training domains, as well as within live, virtual, and constructive (LVC) environments and the Synthetic Training Environment (STE). Training conditions promote leader development by emphasizing “how” and not “what” to think about the OE and threat conditions. The Opposing Forces (OPFOR) remains a freethinking sparring partner, well versed in potential adversaries’ future tactics and capabilities in all phases of conflict and operating in all domains (land, air, maritime, space, and cyberspace). The training environment creates realistic actions/reactions/counteractions so leaders can learn from the consequences of their decisions, and units can refine or validate their tactics, techniques, and procedures as part of the lessons learned process.

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

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

Objective 1.1: *Training Soldiers*

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

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

- Measure 1.1.a: Fill rate. The fill rate or execution rate measures the number of Soldiers sent to training (input) as a percentage of the number of trained Soldiers needed (quota). In Table 1, the fill rate is calculated as Fill % (Qta) = Input/Quota.
- Measure 1.1.b: Graduation rate. The graduation rate measures the number of Soldiers who graduated from their assigned training as a percentage of input. In Table 4, the graduation rate is calculated as Grad % = Grad/Input.

Table 1 displays data from FY 2018 – FY 2021 for 10 categories of institutional training, including IMT. The objective of IMT is to achieve a quota fill rate of at least 95% and a graduation rate of at least 90%. The Army's overall FY 2021 quota fill remained stable with the FY 2020 fill and graduation rates. As the country moved through its second year of the COVID-19 pandemic, the mitigation strategies the Army implemented during the previous fiscal year (rescheduling or cancelling classes, expanding the use of distributed learning (dL), etc.) continued to generate a consistently high level of training seat fill. It was able to achieve its graduation objective most of the time. The Army will continue to work toward meeting training quotas to assure its Soldiers are always ready. Note: Complete FY 2022 data was not available at the time of AFR publication as some courses were still in session.

Table 1. Individual Training

	FY 2018					FY 2019					FY 2020					FY 2021				
Training Category	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %
AIT	103519	86743	84375	84%	97%	97470	80962	78273	83%	97%	91113	76383	75025	84%	98%	93233	79559	78336	85%	98%
BCT	102631	74994	67808	73%	90%	86340	74379	68009	86%	91%	86950	68293	64471	79%	94%	86258	66181	62778	77%	95%
BOLC	15582	12935	12641	83%	98%	16363	14165	13877	87%	98%	15881	13715	13487	86%	98%	16619	15228	14873	92%	98%
IERW	1088	1052	1023	97%	97%	1088	1088	1097	100%	101%	1057	1087	1053	103%	97%	1280	1156	1137	90%	98%
IERW-CC	1088	1132	1109	104%	98%	1157	1134	1122	98%	99%	1145	1125	1088	98%	97%	1272	1260	1227	99%	97%
INITIAL LANG	842	720	436	86%	61%	899	797	260	93%	33%	1126	974	561	87%	58%	1275	1219	651	96%	53%
OCS	4566	3779	3471	83%	92%	4153	4044	3290	97%	81%	3844	3394	3123	88%	92%	3977	3996	3586	100%	90%
OSUT	37848	31533	28221	83%	89%	39577	32487	27573	82%	85%	34487	29357	26285	85%	90%	36618	30979	27844	85%	90%
WOBC	3734	3121	3103	84%	99%	3462	3040	3018	88%	99%	3639	3266	3249	90%	99%	4103	3817	3778	93%	99%
WOCS	2842	2501	2420	88%	97%	2655	2642	2510	99%	95%	2494	2510	2373	101%	95%	2563	2644	2506	103%	95%
TOTAL	**273740**	**218510**	**204607**	**80%**	**94%**	**253164**	**214738**	**199029**	**85%**	**93%**	**241736**	**200104**	**190715**	**83%**	**95%**	**247198**	**206039**	**196716**	**83%**	**95%**

Training Categories

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

Quota Fill and Grad Rates:

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

Note 1: Data reflects Army students only; all Components
Note 2: All data is based on start date, i.e., if a class starts in FY 2019 and graduates in FY 2020, it is counted as FY 2019 data.
Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of September 1, 2022.
Note 4. Complete FY 2022 data was not available at the time of the AFR publication as some courses were still in session.

Objective 1.2: *Training Units*

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

Performance Indicators: Table 2 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 1.2.a: Percent of scheduled brigades completing CTC rotations.

Performance Results: 100% of brigades scheduled to participate in a CTC rotation during FY 2022 completed training. For FY 2023 and beyond, Army Senior Leaders have directed the following rotational scheduling, as a floor, to be as follows: 8 x NTC Rotations, 8 x JRTC Rotations, 4 x JMRC Rotations, and 2 x Exportable Rotations conducted by USARPAC with CONUS CTC support.

Table 2. Brigade Training

	FY 2022	
	Target	Actual
Percent of scheduled brigades completing CTC rotations	100%	100%

Table 3. CTC Rotations Completed

Type of CTC Rotation Completed	Assigned Brigade Combat Team (BCT)	Rotations Completed
Maneuver: Decisive Action/Unified Land Operations (DA/ULO)	Active BCT (includes 2 x Exportable Rotations)	20
	Army National Guard (ARNG) BCTs	2
Command Post Exercises	Army Service Component Commands	3
	Army Corps	2
	Army Divisions	5
	Army BCTs	2
	Army Sustainment Brigades	4
	Functional/ Multifunctional Brigades	17
	Army Special Forces	4

Objective 1.3: *Developing Adaptive Army Leaders*

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

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

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

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

Table 4. Professional Development

		Professional Development									
		Noncommissioned Officer Professional Development System (NCOPDS)				Officer Education System (OES)					
Number of Leaders Trained		Basic Leader Course	Advanced Leader Course	Senior Leader Course	Master Leader Course	Sergeant Major Course Resident/ Phase 2 Non-resident	Warrant Officer Advance Course Resident	Warrant Officer Intermediate Level Education Resident/Non-resident	Warrant Officer Senior Service Education Resident/Non-resident	Intermediate Level Education Resident/ Common Core	Senior Service College/ Distance Learning
FY 2018	Quota	41,998	40,855	23,349	4,076	3,172	3,067	2,499	810	12,782	1,824
	Grads	40,361	36,506	21,802	3,714	2,709	2,867	1,886	693	8,355	1,773
FY 2019	Quota	44,012	39,840	23,367	5,514	2,824	2,606	2,377	924	9,924	1,849
	Grads	42,967	35,863	22,399	5,145	1,127	2,179	1,727	750	5,942	750
FY 2020	Quota	42,984	29,046	18,562	5,601	2,572	2,685	2,045	867	11,122	1,974
	Grads	43,009	24,129	16,296	5,210	2,331	2,577	1,211	797	7,763	1,476
FY 2021	Quota	44,303	41,868	22,178	4,560	2,574	2,490	1,439	937	11,538	1,921
	Grads	44,559	36,297	20,065	4,485	2,333	2,909	1,167	887	11,291	1,456

Note 1: Data reflects Army students only; all Components
Note 2: All data is based on start date, i.e., if a class starts in FY 2019 and graduates in FY 2020, it is counted as FY 2019 data.
Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of September 1, 2022.
Note 4: Complete FY 2022 data was not available at the time of AFR publication as some courses were still in session.
Note 5: Army changed name of Warrant Officer Staff Course to Warrant Officer Intermediate Level Education, and Warrant Officer Senior Staff Course to Warrant Officer Senior Service Education

Modernization

Strategic Goal 2: *To make Soldiers and units more prepared to win our nation's wars, then return home safely.*

Modernization of the Army is critical to achieving the Army's mission. The Army has reached an inflection point: we can no longer afford to defer modernizing our formations and capabilities without risking overmatch and the ability to accomplish our mission on future battlefields. Given the challenges and trends of the strategic environment, reforming our modernization model to one that can tap the full potential of technological advancement is a strategic imperative.


(U.S. Army photo by Army Sgt. Tara Fajardo Arteaga)

Building the future Army to outpace 21st century threats requires investing, developing, and fielding weapons and platforms with next generation technology by 2028 that will provide our formations with distinct advantages over near-peer competitors in six prioritized capability areas of investment:

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

To provide a comprehensive plan for modernization going forward, the Army aligned the six modernization priorities with objectives across three successive future year defense programs (FYDP): Near (present to FY 2024) to close critical capability and capacity gaps, Mid (FY 2025 to FY 2030) to achieve overmatch and begin fielding next generation capabilities for Multi- Domain Operations (MDO); and Far (FY 2031 and beyond) to strengthen overmatch and fully field next generation capabilities for MDO. One of the programs within the FYDP includes the Science and Technology (S&T) Program which will identify, develop, and demonstrate technology options that inform and enable effective and affordable capabilities for the Soldier. These programs will set a basis for future Army modernization. The objectives below were established based on the six modernization priorities and highlight some of the goals achieved during FY 2022.

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

The National Defense Strategy and The Army Strategy note that the global security environment is increasingly complex and characterized by challenges to the free and open international order and the re-emergence of long-term, strategic competition between nations. These circumstances require a focused assessment of threats, strategic adjustments based on the changing character of warfare, and a transformation of the Department of Defense. Army Senior Leaders directed that a holistic Army

Network Strategy be implemented to actively work towards gaining network superiority for the Army as a part of the joint force. Accordingly, there are multiple agencies within the Army that are undertaking efforts to modernize the Army's network capabilities. The U.S. Army published the Army Unified Network Plan (AUNP) Framework in September 2021 to organize and coordinate these efforts and to accelerate modernization of the Army's network. The AUNP reorganized and refocused the Lines of Effort (LOE) and supersedes the prior Army Network Plan Framework (ANP). The AUNP aligns with the Army Strategy's focus on building readiness, modernizing, reforming the Army, and strengthening alliances and partnerships while taking care of our people and living the Army values. Execution of the AUNP will enable the Army to meet its Title 10 responsibilities to man, train, and equip the force while building and sustaining readiness. Additionally, the AUNP parallels and will enable the Army Campaign Plan over multiple phases and time horizon.

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


(Photo courtesy of the U.S. Army)

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

LOE 1: Establish the Unified Network—Enabling Multi-Domain Operations

LOE 2: Posture the Force for Multi-Domain Operations

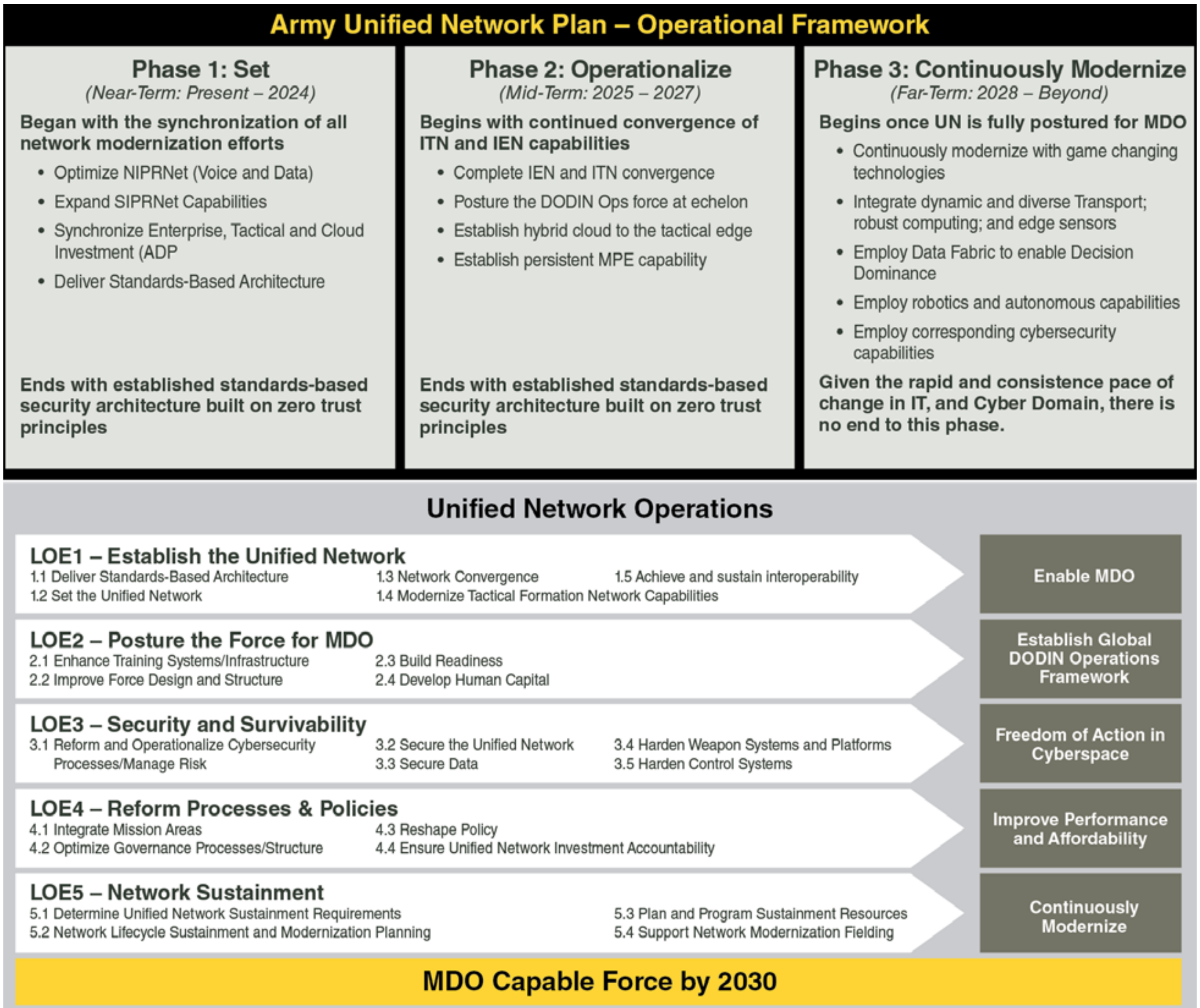
LOE 3: Security and Survivability—Commander's Freedom of Action in Cyberspace

LOE 4: Reform Processes & Policies—Improve Performance and Affordability

LOE 5: Network Sustainment—Sustain Enterprise and Tactical Networks

Figure 3 below displays the AUNP Operational Framework inclusive of Phases, LOEs, objectives and LOE outcomes for the future state of the network. For current status, this visualization can be accessed real-time at: *https://www.sms.army.mil/dashboards/885360438/shared/A36382F87802D22FC23FEE940A59833D66F2AEFF595C5DA4*

Figure 3. Army Unified Network Plan Operational Framework



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

Performance Measure / Indicators: The AUNP is currently supported by key performance indicators (KPIs) that are a combination of quantitative and qualitative metrics. The reorganized and refocused operation framework replaced the KPIs from the prior Army Network Plan Framework (ANPF) used in prior reports to align measures to current identified objectives. Comparison to prior years needs to account for the change in the identified LOEs (e.g. Sustainment changed from LOE 4 to LOE 5). While details have been updated for evolving objectives and priorities, the strategic intent is similar to and a refinement of the prior ANPF. The performance indicators are reported monthly and are housed in an Army system of record. The indicators are reviewed on a recurring basis to update and apply relevant assessment factors to the objectives as necessary. The indicators selected by the AUNP community, vetted and approved by senior leaders, are outcome-based measures that change over time, in order to continue to support the LOE they are assigned.

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

- Measure 2.1.a: Objective 3.1.1-1 Achieve 100% of all RCCs and USACE have implemented repeatable, sustainable, standardized processes by March 2023
- Measure 2.1.b: Objective 3.1.1-2 100% visibility and accountability of cloud instances
- Measure 2.1.c: Objective 3.1.1-3 Achieve 20 % increase in number of planned Command Cyber Readiness Inspections across the Army
- Measure 2.1.d: Objective 3.2.1-1 100% of Global Enterprise Fabric (GEF) and Garrison Defensive Cyberspace Operations Platform (GDP) hardware installed by September 2025
- Measure 2.1.e: Objective 3.2.2-1 Army Endpoint Security Solution (AESS) deployed across 100% of the Army Unified Network by September 2023
- Measure 2.1.f: Objective 4.3.1-1 Signed policy establishing Army IT regulation and corresponding DA Pamphlet proponencies between the organizations

“DFAS and Army’s partnership has been key to achieving Department wide FBwT goals in FY22. These strides towards auditability truly represent our unity of effort and demonstrate a true team of teams!”

Pamela M. Franceschi
Director, Defense Finance Accounting Service – Columbus (DFAS-CO)

Each of these metrics support the LOE and Objectives they are grouped under. The AUNP Implementation Execution Order was published in February 2022 and the LOE leads tasked with identifying the supporting tasks and indicators. Full year reporting is not possible due to timing and indicators are being incorporated as developed and approved. Currently LOE 5 is still working to identify key tasks and relevant performance indicators for Network Sustainment where separate networks are transitioning over several years into a unified network undergoing continuous modernization. The individual metric performance values are combined to create a performance score that is normalized across all elements of the AUNP (e.g. a score of 3 or less is high risk and indicates ‘red’ or progress obstacles, and a score of 7 or higher is low risk and indicates ‘green’ or exceeding planned progress). Grey cells indicate that no performance information was reported at the indicated junction.

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

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

	Performance Roll-up	
	FY 2022	
Army Unified Network Plan Framework	**Score***	**Goal****
The Army Unified Network Plan	8.58	6.67
LOE 1: Establish the Unified Network		6.67
LOE 2: Posture the Force for Multi-Domain Operations		6.67
LOE 3: Security and Survivability	8.46	6.67
LOE 4: Reform Processes & Policies	8.70	6.67
LOE 5: Network Sustainment		6.67

* A score of 3.33 or less is high risk and indicates 'red' or progress obstacles, and a score of 6.67 or higher is low risk and indicates 'green', meeting or exceeding target score. Blank scores indicate that supporting metrics have not yet been finalized as of AFR publication date.
** Goals are set to 'green' thresholds to identify meeting or exceeding target. A goal of 10 may not be desirable as there is potential it indicates excessive resource allocation that could be applied to other activities.

Table 6. Army Unified Network Plan Framework Annualized Lines of Effort Objectives Performance Indicators

	Performance Roll-Up		
Army Unified Network Plan		FY 2022	
Line of Effort	**Objective**	**Score***	**Goal****
LOE 1: Establish the Unified Network	OBJ 1.1: Deliver a Standards-Based Network Architecture		6.67
	OBJ 1.2: Set the Unified Network		6.67
	OBJ 1.3: Network Convergence		6.67
	OBJ 1.4: Modernize Tactical Formation Network Capabilities		6.67
	OBJ 1.5: Achieve and Sustain Interoperability		
LOE 2: Posture the Force for Multi-Domain Operations	OBJ 2.1: Enhance Training Systems and Infrastructure		6.67
	OBJ 2.2: Improve Force Design and Structure		6.67
	OBJ 2.3: Build Readiness		6.67
	OBJ 2.4: Develop Human Capital		6.67
LOE 3: Security and Survivability	OBJ 3.1: Reform and Operationalize Cybersecurity Processes/Manage Risk	7.59	6.67
	OBJ 3.2: Secure the Unified Network	8.81	6.67
	OBJ 3.3: Secure Data	9.33	6.67
	OBJ 3.4: Harden Weapons Systems		6.67
	OBJ 3.5: Harden Control Systems		6.67
LOE 4: Reform Processes & Policies	OBJ 4.1: Integrate Mission Areas		6.67
	OBJ 4.2: Optimize Governance Processes and Structure	10.00	6.67
	OBJ 4.3: Reshape Policy	7.84	6.67
	OBJ 4.4: Ensure Unified Network Investment Accountability		6.67
LOE 5: Network Sustainment	OBJ 5.1: Determine Unified Network Sustainment Requirements		6.67
	OBJ 5.2: Network Life-Cycle Sustainment and Modernization Planning		6.67
	OBJ 5.3: Plan and Program Sustainment Resources		6.67
	OBJ 5.4: Support Network Modernization Fielding		6.67

* A score of 3.33 or less is high risk and indicates 'red' or progress obstacles, and a score of 6.67 or higher is low risk and indicates 'green', meeting or exceeding target score. Blank scores indicate that supporting metrics have not yet been finalized as of AFR publication.
** Goals are set to 'green' thresholds to identify meeting or exceeding target. A goal of 10 may not be desirable as there is potential it indicates excessive resource allocation that could be applied to other activities.

Reform

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

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

Objective 3.1: *Business Transformation Initiatives*

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

The Amy Business Management Plan (ABMP) provides the direction and governance to accomplish this. It contains initiatives that will:

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

ABMP Goals and Objectives

GOAL 1: People

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

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

GOAL 2: Data Enabled Enterprise

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

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

GOAL 3: Business Operations and Processes

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

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

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

In synchronization with the Secretary's second objective to become more data-centric, the US Army moves towards a predominate data driven decision-based approach. The Enterprise Data Analytics Strategy (EDAS) and the Army Business Management Plan (ABMP) establish the trajectory to meet the

Secretary of the Army's data goals by building Enterprise-wide decision analytic capabilities to meet and improve the business value of the Army information resources.

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


(U.S. Army photo by Sgt. Gabriel Rivera)

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

EDAS Goals and Objectives

GOAL 1: Data Analytics and Doctrine Policy

- **1.1.** Establish AAB and Project Pipeline
- **1.2.** Codify Army's Approach to Analytics

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

GOAL 2: Data Analytics Organization and Infrastructure

- **2.1.** Establish CAO and HQDA Analytics Cell
- **2.2.** Conduct Army Collaborative Events
- **2.3.** Strengthen Analytics Community of Practice
- **2.4.** Collaborate with Academia and Industry
- **2.5.** Incentive Analytics Cells

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

GOAL 3: Workforce Capability and Capacity for Data Analytics

- **3.1.** Coordinate the Analytics Community
- **3.2.** Identify Positions, Roles and Skills
- **3.3.** Analytics Expertise Aligned to Capability

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

GOAL 4: Leadership for Data

- **4.1.** Executive Leader Analytics Training
- **4.2.** Enterprise Analytics Capability Measures
- **4.3.** Leader Incentives to Use Analytics

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

Goal 5: Materiel and Technology Support for Data Analytics

- **5.1.** Evaluation of Tools and Workforce
- **5.2.** Analytics-Informed System Requirements
- **5.3.** Enterprise Data Environments and Tools

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

(U.S. Army photo by Staff Sgt. Felix Fimbres)

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

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

In FY 2019, the Army established the Army School of Business at the Army Logistics University, Fort Lee VA. The School consolidates BMA Training to include Lean Six Sigma (LSS), BPR, Robotic Process Automation, Data Analytics for Non-Operations Research and Systems Analysis (ORSAs) and other business-related courses. The school has yet to achieve its expected full operational capability (FOC) due to COVID-19 restrictions. It is expected to achieve FOC no later than 2nd quarter FY 2023.

In FY 2019, the Army implemented Category Management (CM) to improve Army services contracting and enable the Army to save time, money, and manpower for reinvestment into higher priorities. The goal is to achieve 5% savings year over year from the FY 2019 baseline. CM is the business practice of buying common goods and services as an enterprise to eliminate redundancies, increase efficiency and deliver more value and savings. The Army has implemented governance, established training that drives better contracting processes, increased spending under management, and implemented demand management best practices to manage requirements and reduce redundancies. All categories have established demand management practices including standard levels of services. This year, the Army launched an enterprise CM data analytic capability in Vantage to enable a data-driven analysis of Army contracting decisions. In addition to the $1.6 billion in category management savings achieved in POM 20-24, the Army anticipates achieving additional savings and better value of goods and services through improved contracting and demand management.

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

- Measure 3.1.a: FY 2022 financial benefits conferred from CPI/BPR initiatives
- Measure 3.1.b: Number of students trained in BPR Foundation course
- Measure 3.1.c: Number of students trained in BPR Intermediate course
- Measure 3.1.d: Percentage completion of ABMP initiatives
- Measure 3.1.e: Number of students trained in the IMS Course
- Measure 3.1.f: CM Cost Savings – 5% year over year from FY 2019 baseline
- Measure 3.1.g: CM Data Analytics – Army Contracting Command (ACC) data analytics at full operational capability by EOY FY 2020

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

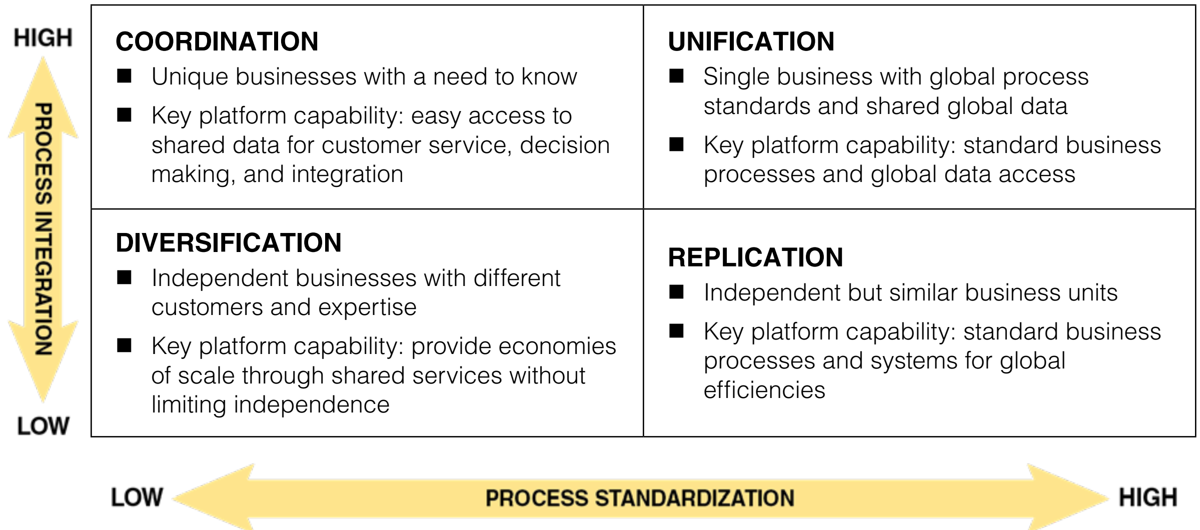
In FY 2022, 118 students completed the Tier One Foundation course, and 66 students completed the Tier Two Intermediate course, with 15 students attaining Tier Three certification. To date, the BPR CoE has trained 1,045 BPR practitioners (779 Foundational, 247 Intermediate, and 19 Advanced).

Army CM Cost achieved a savings of $1.6 billion in POM 20-24. In FY 2021, Army Contracting Command deployed the category management analytic tool in Vantage to enable detailed analysis of CM contracts by commands, categories and contracting officers.

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

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

Figure 4. BMA Business System Information



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

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

Performance Results: The target number of DBS for system retirements during FY 2022 was 29 systems. In total, the Army retired 31 legacy DBS investments during FY 2022. The Army exceeded its goal by retiring two additional systems (7% above target). The Army continues to conduct aggressive Portfolio Management practices, Business Process Reengineering (BPR) activities and repeatedly seek opportunities to retire obsolete capabilities sooner

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

Currently, EBS-C is proceeding through the DODI 5000.75 Business Capability Acquisition Cycle (BCAC) process, and is beginning work in Phase 3 (Functional Requirements and Acquisition Planning). The Under Secretary of the Army and Vice Chief of Staff of the Army gave approval for the Capabilities Requirement Document Part 2 on October 7, 2021, and on March 1, 2022, approved EBS-C to compete in the POM FY 2024 - 2028 cycle for future funding. The EBS-C Product Office (from the Program Executive Office for Enterprise Information Systems) is currently executing the acquisition approach outlined by the Army Acquisition Executive (AAE). Follow-on actions in this phase include collecting industry request for information, hosting an Industry Day, using prototypes for program risk reduction, and refinement of the acquisition approach.

Army Senior Leaders directed strategic outcomes include modernizing defense business system capabilities using industry best practices, which are baked into EBS-C's "Commercial and Possible, as Military as Necessary" approach to upcoming Army-wide Business Process Reengineering (BPR) efforts. Multiple cross-functional Product teams will be built out, staffed with the leading subject matter experts from across all levels of the Army to ensure every user's voice is heard. These teams will attack inefficient Industrial Age processes and incorporate human-centered design methodologies up front to close the gaps between existing systems and processes from acquisition through disposition.

Given that EBS-C is still in the planning stages and not yet begun implementation, performance indicators have not yet been defined and there are no performance results to report at this time.

People

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

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

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

The Army fell short of its active component FY 2022 end strength goal of 476,000 by approximately 10,000. This is not expected to negatively impact the Army's ability to fulfill its requirements as outlined in the current National Defense Strategy. The Army will continue to consider and develop options that allow us to demonstrate to qualified young people how Army service can contribute to their personal and professional goals.

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

- Measure 4.1.a: Quality Percent Tier 1 Educational Credential Holders (Active Component).
- Measure 4.1.b: Total Enlisted Recruiting.
- Measure 4.1.c: Active Component (AC) End Strength. The number of Soldiers on active duty at the FY-end; data as of September 30, 2022; does not include Soldiers on Active Duty for Operational Support (over 1,095 days). Under presidential-declared

(U.S. Army photo by Master Sgt. Becky Vanshur) states of national emergency, end-strength limits may be waived. Goals and minimums of FY 2017 – FY 2018 identified within the National Defense Authorization Act (NDAA). Goals and minimums of FY 2019 – FY 2022 established by the Secretary of the Army, approved by the Secretary of Defense, and within 2% of end-strength limits identified within the NDAA.

- Measure 4.1.d: Reserve (ARNG and USAR) End Strength. The number of Soldiers in ARNG and USAR; data as of September 30, 2022. Goals and minimums of FY 2019 – FY 2022 established by the Secretary of the Army, approved by the Secretary of Defense, and within 3% of end-strength limits identified within the NDAA.
- Measure 4.1.e: Number of Soldiers reenlisted during a given FY against published goals.

Performance Results: The Army, along with the other Services, is experiencing significant headwinds in recruiting this year. However, the Army remains committed to maintaining standards of excellence and recruiting quality over quantity. The Army's continued commitment is to achieve at least a 90% rate of new recruits with Tier 1 educational credentials, at least 60% for CAT I – IIIA on Armed Forces Qualification Test (AFQT) scores, and at most 4% for CAT IV on AFQT scores. The total Army has achieved approximately 95.77% Tier 1s, 61.33% on CAT I – IIIAs, and 3.87% on CAT IVs recruits for FY 2022. All measures of attrition have remained constant and the overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force. In FY 2022, the Army offered monetary, quick-ship bonuses, and non-monetary, duty station of choice, incentives for applicants to contract and ship to basic combat training.

The Army did not achieve the Active Component FY 2022 recruiting mission. The United States Army Reserve (USAR) and Army National Guard (ARNG) did not achieve its FY 2022 recruiting mission. The Army fell short of its active component FY 2022 end strength goal of 476,000 by approximately 10,000. We don't expect this shortfall to negatively impact our ability to fulfill our requirements as outlined in the current National Defense Strategy, but this is a stark reminder that maintaining our all-volunteer force is not a given. We continue to consider and develop options that allow us to demonstrate to qualified young people how Army service can contribute to their personal and professional goals.

The retention program continued to support Army readiness by retaining Soldiers serving in high demand special skills areas. In FY 2022, the Army offered a selective retention bonus to attract and retain personnel in specific skill areas, including Cyber Operations Specialist, Special Forces, and Cryptologic Linguist. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army exceed its FY 2022 retention goal. The Army will continue to develop and implement programs to address Soldier retention.

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

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Tier 1 Goal	90%	90%	90%	90%	90%	90%
Tier 1 Actual*	96%	95%	94%	96%	93%	94%

*Actual data as of September 30, 2022.

Table 8. Enlisted Recruiting

	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Goal	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual	FY 2022 Percent Delta
Active Component	68,862	69,972	68,185	62,000	62,151	57,500	57,606*	60,000	44,901	-25.10%
ARNG	34,298	34,629	39,063	42,730	42,730	42,957	34,658	38,430	24,829	-35.3%
USAR	13,272	11,327	15,304	15,850	13,706	15,875	11,690	14,650	9,095	-37.90%

*Actual data as of September 30, 2022. The Percent Delta has no adverse impact on Army Operational Readiness.

Table 9. Active Component End Strength

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Goal	476,000**	483,500**	478,000***	485,000***	485,900***	476,000***
Actual*	476,245	476,179	483,941	485,383	486,490	465,625*
Percent Delta	0.05%	-1.50%	1.20%	0.10%	0.12%	-2.18%

* Actual data as of September 30, 2022. The Percent Delta has no adverse impact on Army Operational Readiness.
**Goal and minimum of FY 2017 – FY 2018 identified within the National Defense Authorization Act (NDAA).
***Goal and minimum of FY 2019 – FY 2022 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the National Defense Authorization Act (NDAA).

Table 10. Reserve (ARNG and USAR) End Strength

	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	FY 2021 Goal	FY 2022 Actual	Percent Delta
ARNG	343,603	335,204	335,973	334,828	336,500**	337,525	336,000**	329,705*	-1.87%
USAR	194,318	188,811	190,719	188,964	189,800**	184,358	189,500**	176,171*	-7.03%

* Actual data as of September 30, 2022.
**Goal and minimum of FY 2019 – FY 2022 established by SECARMY, approved by SECDEF, and within 3% of end-strength limits identified within the National Defense Authorization Act (NDAA).

Table 11. Active, National Guard and Reserve Component Retention

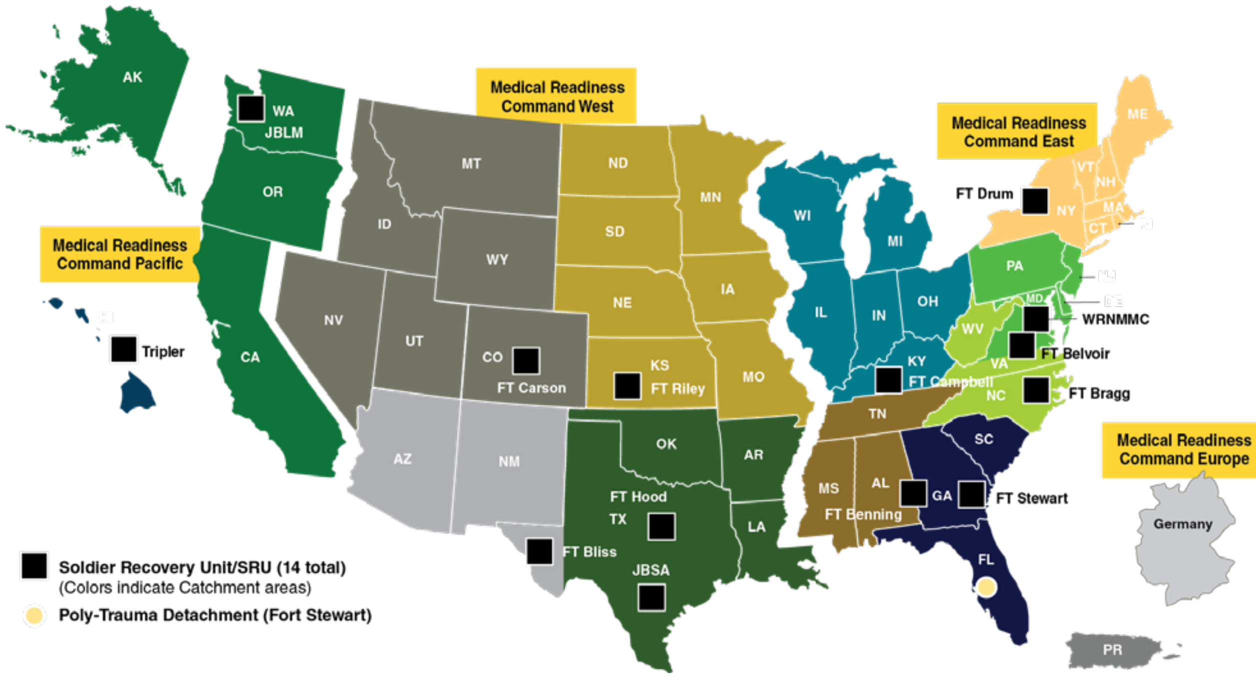
	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual	Percent Delta
Active Component	58,373	55,881	51,331	53,024	56,275	58,141	55,934	58,303*	+4.17%*
ARNG	31,530	34,913	36,138	34,260	33,624	36,628	35,345	31,908*	-9.72%*
USAR	16,737	19,012	17,089	13,004	11,000	12,528	13,500	10,513*	-22.1%*

*Actual data as of September 30, 2022

“DFAS and Army worked together to support 91% ($11B of $12B) of Army General Fund’s year to date Fund Balance with Treasury (FBwT) undistributed adjustments with transactional level detail. While there is still more work to be done, this significant achievement directly supports the Secretary of Defense’s FY22 Audit Priorities and Army’s objective to downgrade their FBwT material weakness.”

Richard D. Davis
Director, Defense Finance and Accounting Service - Indianapolis (DFAS-IN)

Objective 4.2: *Providing Warrior Care and Transition*



The Army Recovery Care Program (ARCP) has the congressionally mandated mission to provide the Army's wounded, ill, and injured (WII) Soldiers, Veterans, and their families with the medical management, access to care, and transition support they need and earned. As a staff directorate of U.S. Army Medical Command (USAMEDCOM), it is led by its Deputy Chief of Staff Army, Recovery Care Program (DCS-ARCP). The ARCP is the U.S. Army's proponent for overseeing, integrating, and synchronizing policy, advocacy, and implementation of warrior care initiatives that contribute to Army Readiness. Program population was 1,467 as of September 2022. Over the past 12 months, 1,852 Soldiers entered the program. This does not include 'admin management' Soldiers but does include Soldiers eventually achieving Remote Medical Management (RM2) status. An additional 4,064 Soldiers spent at least one day in the program during the last 12 months.

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

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

Performance Indicators: Tables 12 – 16 display measures that are performance indicators in meeting the above objective.

Readiness:

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

Oversight:

- Measure 4.2.c: Percent of Organizational Inspection Program (OIP) compliance rates.
- Reintegration and Transition Support:
- Measure 4.2.d: Percent of Soldiers in the "Transition from the Army" career track that are participating in a Career and Education Readiness (CER) worksite.
- Measure 4.2.e: Percent of "warm handoffs" of eligible transitioning Soldiers to the Veterans Administration (VA).

Performance Results: The ARCP's focus on providing enhanced access to care for ARCP Soldiers contributes to the Army's total force readiness. Of the more than 83,000 Soldiers who have entered and completed the ARCP, 42% have returned to duty, a rate of return that the ARCP has maintained for the past several years and includes all Soldiers completing the program since June 1, 2007. The RTF rate for all components in FY 2020 was 39%, FY 2021 was 45% and thus far, in FY 2022 is 38%.

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

(Photo courtesy of the U.S. Army)

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

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

Policy Oversight and Compliance: ARCP sends teams to visit each SRU no less than once each 18 months. These teams evaluate SRU compliance with policies, procedures, and best practices, with an overall compliance rate of nearly 90%. The checklist is regularly updated to ensure an evolving oversight program that captures changing policy. The staff assistance effort includes four quarterly assessments and a root cause analysis to determine required policy changes and to determine where to effect change or provide additional guidance to assist units or adjust policy. This quarterly analysis and a standard operating procedure help spread best practices across the enterprise and lead to the continuing improvement of the program. ARCP also conducts monthly synchronization meetings with RCOs to adjust policy, improve oversight, and integrate training.

Table 12. End of Fiscal Year Soldier Average Time in Program[1]

	FY 2019 End of FY Average (days)	FY 2020 End of FY Average (days)	FY 2021 End of FY Average (days)	FY 2022 Goal	FY 2022 Average (days) as of September 2022
Active Component	250	275	297	<270	256
Army National Guard	250	297	279	<270	247
U.S. Army Reserve	282	318	284	<270	229
All Components Average	**255**	**292**	**289**	**<270**	**246**

Source: Medical Operational Data System Warrior in Transition (MODS-WT)

Table 13. Return to Force[2]

	FY 2019	FY 2020	FY 2021	FY 2022
Active Component	23%	19%	25%	11%
Army National Guard	65%	63%	60%	60%
U.S. Army Reserve	61%	60%	62%	55%
Total Completed Program by FY	2,471	2,592	1,693	1,381
Total Returned to Force by FY	993	1,021	758	496
All Components Average	**40%**	**39%**	**45%**	**36%**

Source: MODS-WT

Table 14. Organizational Inspection Program (OIP) Averages[3]

FY 2021 Inspection Compliance Rates	FY 2022 Goal	FY 2022 Inspection Compliance Rates (5 of 14 SRUs)
N/A – no inspections due to pandemic	85%	85.75%

Source: Army DCS-WCT FY 2022 OIP Results

Table 15. Soldiers CER Participation[4]

	FY 2019	FY 2020	FY 2021	FY 2022
Eligible (Average of each end of month total)	930	861	664	463
Participation (Average of each end of month total)	854	752	608	410
Percent Goal	90%	90%	90%	90%
Percent Participation	**92%**	**87%**	**92%**	**89%**

Source: Army Recovery Care System (ARCS)

Table 16. Veteran's Administration (VA) Warm Handoff[5]

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022 As of September 2022
Soldiers Eligible for Referral	1,855	1,624	1,808	1,123	1,288
Soldiers Referred	1,707	1,442	1,698	995	1,246
Percent Goal	90%	90%	90%	90%	90%
Percent Referred	**92%**	**89%**	**94%**	**89%**	**97%**
Source: Federal Case Management Tool (FCMT) and MODS-WT					

Notes:
[1] "Time in Program" calculated by average days in the program for Soldiers current in the program at the time information was analyzed (last week of each FY). Over 600 Soldiers exited the program from May to August with an average time program of 410 days resulting in a decrease of the overall FY 2021 average by over 20 days.
[2] By returning an SFC to active duty instead of separation, the Army saves $988,000 (Source: Wounded Warrior Transition Analysis, Center for Army Analysis, 15 May 2017). Data does NOT include RM2 Soldiers.
[3] OIP paused FY 2021 due to COVID-19 pandemic.
[4] Analysis includes all Army Components.
[5] A successful "VA Warm Handoff" is defined as a completed VA Form 10-0454 (Military Treatment Facility Referral Form to VA Liaison) being sent electronically by a Soldier's Nurse Case Manager to the nearest VA LNO, and the Soldier subsequently meeting with the VA Veterans Health Administration counselor to complete the form. At this point, the data is entered into the VA's FCMT and the Soldier is considered as having been referred.

Objective 4.3: *Improving Soldier and Family Housing*

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

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

By providing housing allowances, the Army enables Soldiers, with and without dependents, to secure adequate and affordable housing in the local community. Approximately 70% of Soldiers are housed in this manner through the Housing Services Offices at the Army garrisons worldwide. The Army maintains about 10,104 Army-owned FH units and seeks to improve or replace inadequate FH to achieve an inventory that consists of 90% being quality-rated Q1 or Q2. If necessary, the Army programs for FH construction projects to build inventory to reduce quantity deficits or to replace housing not economical to renovate.

The Army has also utilized FH and UH privatization options to deliver adequate and affordable housing on Army installations in the United States. The Army's privatized housing Residential Communities Initiative (RCI) exists at 44 installations in the United States, including Alaska and Hawaii for an end-state inventory of 85,283 family homes. The Army RCI program also has five UH privatization projects at Forts Irwin, Drum, Bragg, Stewart, and Meade for an end-state inventory of 2,411 unaccompanied apartments. The Army plans to eliminate inventory of inadequate lodging at locations in the United States, including Alaska, Hawaii, and Puerto Rico through the Privatized Army Lodging (PAL) program. The PAL program operates at 40 installations with an end-state inventory of 12,676 guest rooms.

As of the end of 3rd Quarter of FY 2022, the UH (barracks) portfolio is vast. The DCS, G-9 overseas about 6,800 UH buildings that can house over 480,000 spaces. The types of UH include permanent party (PP), institutional training (IT), and collective training (CT).

The Army has primarily focused on improving the quality of PP and IT UH and has established plans to raise the quality ratings to meet the OSD 90% Q1/Q2 goal in FY 2030 for PP and FY 2025 for IT. Goals and funding for improvement of collective training UH have been established to meet the 90% Q1/Q2 goal by FY 2030.

Objective 4.3.1: *Family Housing Quality*

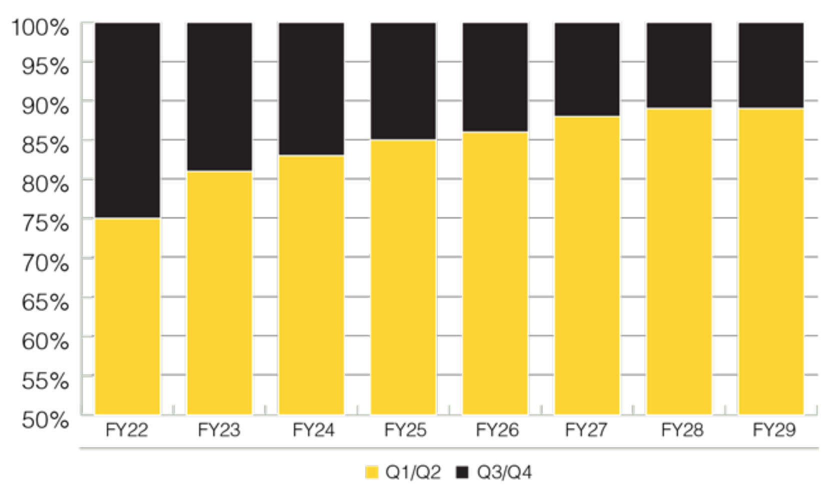
The DCS, G-9 expects the Army-owned FH inventory will reach the OSD 90% Q1/Q2 goal for FH in FY 2023.

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

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

Performance Results:

Figure 5. Family Housing with Quality Rating 1-4



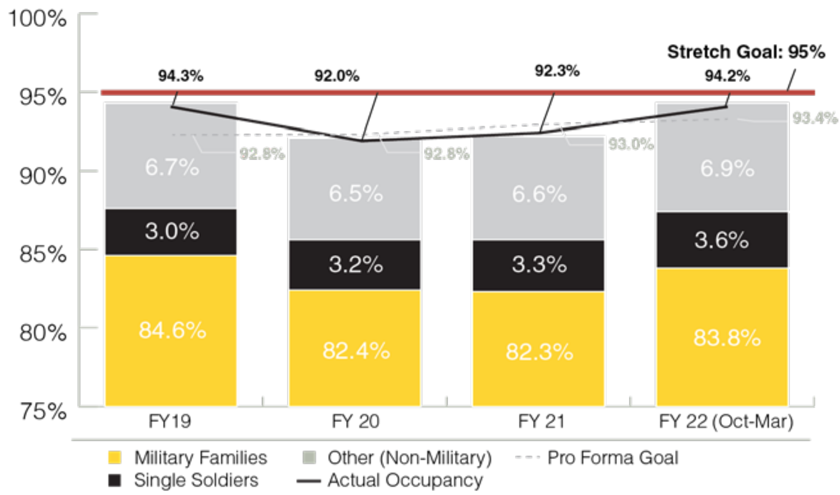
Objective 4.3.2: *Privatized Family Housing Occupancy*

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

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

Performance Results:

Figure 6. Occupied Privatized Family Housing



Objective 4.3.3: *Army Unaccompanied Housing*

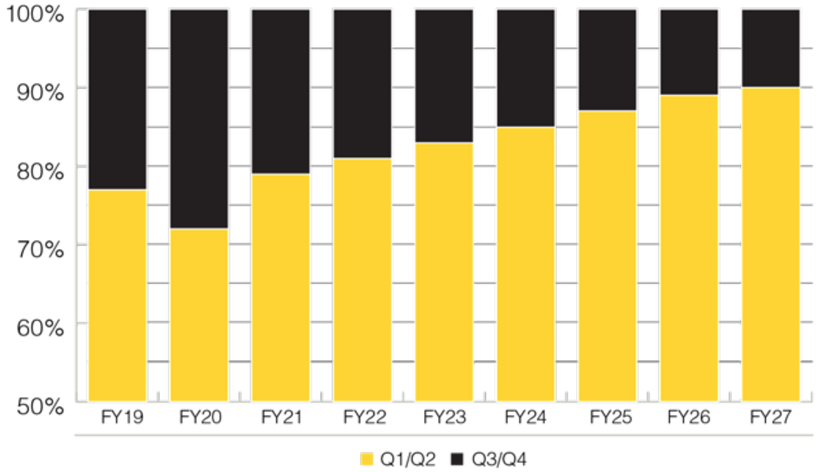
The Deputy Chief of Staff, G-9 anticipates the Army will achieve the OSD 90% Q1-Q2 goal for PP UH in FY 2029, IT UH in FY 2028 and CT UH in FY 2030.

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

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

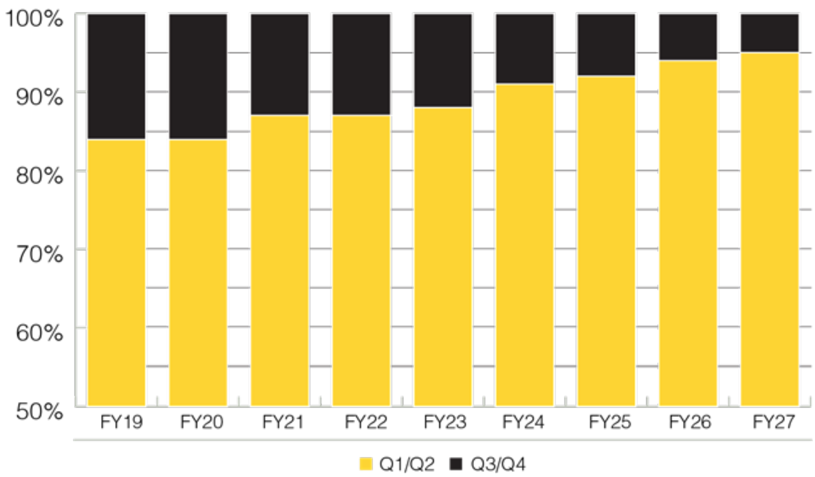
Performance Results:

Figure 7. Permanent Party UH



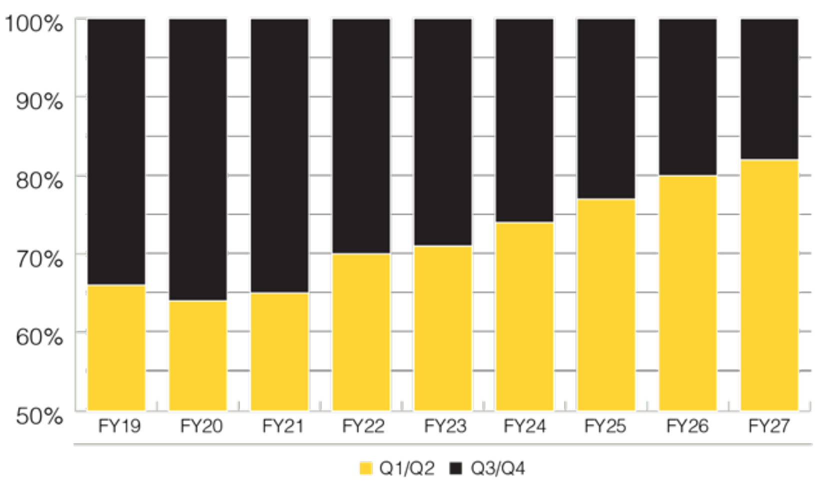
For permanent party UH, the Army had 188,257 bedspaces at the end of 3rd quarter FY 2022; 78% at Q1/Q2.

Figure 8. Institutional Training UH



For institutional training UH, the Army had 110,698 bedspaces at the end of 3rd quarter FY 2022; 83% at Q1/Q2.

Figure 9. Collective Training UH



For collective training UH, the Army had 183,049 bedspaces at the end of 3rd quarter FY 2022; 67% at Q1/Q2.

Objective 4.4: *Enhancing the Civilian Workforce*

Enhancing the Civilian workforce includes filling vacant Civilian positions as timely as possible to meet mission requirements while still executing within budget. The Army Civilian workforce includes over 260,000 employees working in approximately 500 unique job series, comprising about 21% of the Total Army Force. Civilians work as Appropriated Fund (AF) employees, including dual-status military technicians working for the Army National Guard; Non-appropriated Fund (NAF) employees in support of Morale, Welfare, and Recreation (MWR) programs; and Civil Works funded employees. The Army also employs foreign nationals (FNs) in both a direct hire and indirect hire status. As of September 30, 2022, Civilian strength by category was as follows:

Total: 259,598	
Appropriated Fund (Military Function):	**210,852**
US Direct Hire:	191,744 (includes 26,159 Army National Guard Military Technicians)
FN Direct Hire:	6,269
FN Indirect Hire:	12,839
NAF:	**23,008**
Civil Works:	**25,738**

During the last quarter of FY 2022, the Army's Medical Command (MEDCOM) executed a transfer of function (TOF) to the Defense Health Agency (DHA). The TOF involved moving approximately 27,000 personnel off of the Army's employment roster and onto DHA's during the FY. This impacted two of the three measures, as described below.

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

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

Performance Indicators: Table 18 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.1.a: Percentage execution of Civilian positions (end of year on-board versus FY 2022 authorizations in the President's Budget (PB22).

Performance Results: The Army has executed slightly below its FY 2022 authorizations throughout the fiscal year. While under-execution may impact Army Civilian readiness due to being unable to fill all authorized billets, the Army is currently within manageable levels. The Army can affect its execution through natural attrition and/or adjusting hiring practices. FY 2022 has experienced above average attrition relative to previous years. The Army can mitigate staffing shortfalls with contract personnel, increasing the use of overtime, or other workforce management practices. There are two figures shown in the Q4 FY 2022 section of Table 17. The first figure (85.5%) shows the Army's Civilian execution relative to authorizations for FY 2022. However, the second figure (99.97%) shows execution relative to FY 2023 authorizations, which are effective October 1, 2022. The appearance of low execution based on FY 2022 authorizations is expected due to the TOF from MEDCOM to DHA. That is, MEDCOM's authorizations were locked on the FY 2022 figure throughout the year, despite a planned reduction of approximately 27,000 personnel in fourth quarter.

Table 17. Civilian Execution

Measure	Goal	FY 2019	FY 2020	FY 2021	Q1 FY 2022	Q2 FY 2022	Q3 FY 2022	Q4 FY 2022
Civilian Execution Percentage (On-Board vs. FY 2022 Auths (PB22)	98%-102%	101.5%	101.6%	99.1%	98.2%	97.4%	97.0%	99.97%

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

The Army must ensure that its MCOs are filled adequately. This not only ensures that the Army is executing within budget, but that it is distributing its resources appropriately to support critical missions.

Performance Indicators: Table 20 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.2.a: Number of MCOs below 90% fill [based on on-board strength from HQACPERS versus Tables of Distribution and Analysis (TDA) authorizations from FMSWeb].

Performance Results: The number of Army MCOs below 90% fill has increased throughout FY 2022, from 14 at the start of the FY to 18 by the end of Q3 FY 2022. By the end of the FY, the number dropped to 7. This increase throughout the year, and the sharp drop in the Q4 FY 2022, are attributed to the TOF from Medcom to DHA. Fifteen out of 54 MCOs are in the medical field, and medical MCOs typically represent the vast majority of those below 90% fill. Therefore, by the end of FY 2022, and using FY 2023 authorizations as the denominator, only 7 remain below 90% fill. Of the 7 MCOs below 90% fill, 4 of them are staffed between 85.5% and 89.6%, while 1 additional MCO only has ten authorizations, making it very susceptible to large swings in its fill rate.

Table 18. DoD and Army MCOs (The Army recognizes all OSD MCOs as Army MCOs)

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

Table 19. Army MCO Fill

Measure	Goal	FY19	FY20	FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Number of Army MCOs below 90% Fill	Fewer than 11	10	10	14	14	16	18	7

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

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

Performance Indicators: Table 21 displays the measure that serves as the performance indicator in determining progress toward meeting this objective. The table depicts average annual Time to Hire (TtH) for FYs 2019, 2020, and 2021 as well as quarterly TtH for each available quarter of FY 2022.

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

Performance Results: The Army's Civilian time to hire (TtH) stands at 89 days as of the end of third quarterly FY 2022, which is 9 days above the OPM guidance of 80 days. Since FY 2019, the Army ThH has ranged between a high of 91 days and a low of 83 days. Army TtH at the macro-level can be complicated due to a complex hiring process, an abundance of billets requiring security clearances, and a broad geographic area with many locations in remote areas or markets with a small pool of potential employees. Policies and programs implemented over the past five years, to include the expanded use of DHAs and a concerted effort to reduce TtH, has had a positive impact (for example, TtH in FY 2018 was 94 days and in FY 2017 it was 102 days), but work remains to be done to meet the OPM standard.

Table 20. Average Civilian Fill Time

Measure	Goal	FY19	FY20	FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Average Civilian Fill Time	Less than 80 days	91	83	86	87	91	89	*

*Q4 FY 2022 data not available at the time of report

Conclusion

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

ANALYSIS OF FINANCIAL STATEMENTS – GENERAL FUND

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

The Army GF Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2021 to FY 2022. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

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

Figure 10 shows the Army Assets Comparison as of September 30, 2022 and 2021. Total assets amounted to $311,504 million in FY 2022 and $308,869 million in FY 2021, a 0.85% increase. This increase is mainly attributable to the higher FY 2022 end of year Fund Balance with Treasury (FBWT), itself reflecting the increase in appropriations received during FY 2022 (see Army GF, Combined Statements of Budgetary Resources), primarily in Procurement ($5.2 billion) and Operation and Maintenance ($2.6 billion). While FY 2022 Spending authority from offsetting collections decreased $6.2 billion over FY 2021 (see Combined Statements of Budgetary Resources below) to a large extent this was driven by a reduction of unfilled customer orders without advance. A major driver of the reduction in FY 2022 General Property, Plant, and Equipment balances compared to FY 2021, is approximately a $4 billion transfer of Southwest Border wall construction-in-progress to the Department of Homeland Security – Customs and Border Patrol. The increase in Inventory and Related Property in FY 2022 compared to FY 2021, is primarily from a $4 billion increase in JMC (Joint Munitions Command) Retail and MIT (Material in Transit) due to large quantities of stocks shipped via air and vessel to European Theater.


(U.S. Army photo by U.S. Army Sgt. Neysa Huertas Quinones)

Figure 10. Assets Comparison

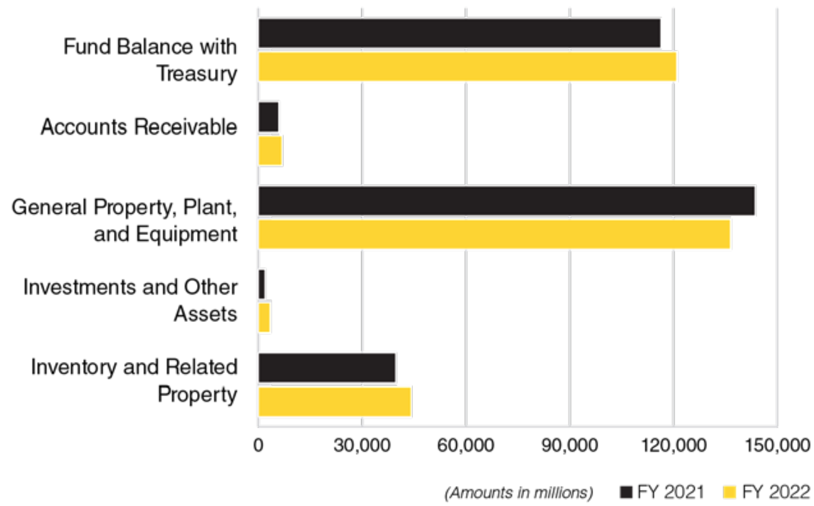
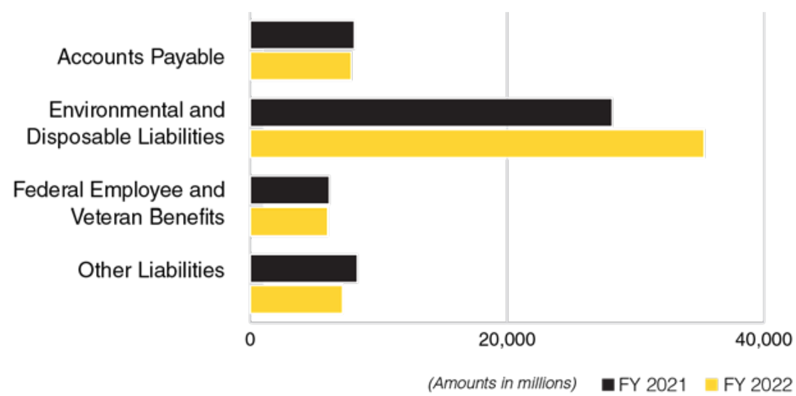


Figure 11 shows the Army Liabilities Comparison as of September 30, 2022 and 2021. Total liabilities amounted to $57,046 million in FY 2022 and $50,740 million in FY 2021, a 12.4% increase. This increase is primarily attributed to a $7.0 billion increase in the estimated environmental and disposal liabilities, mainly those related to Environmental Corrective Actions (see Note 14 to the Army GF Financial Statements) due to a potential increase of cleanup sites at Redstone Arsenal for disposal of munitions.

Figure 11. Liabilities Comparison



Consolidated Statements of Net Cost

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

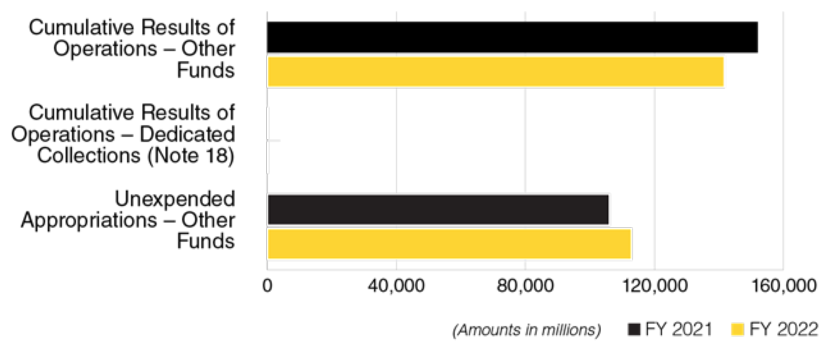
The major elements of the Consolidated Statements of Net Cost include program costs totaling $232,020 million in FY 2022 and $211,783 million in FY 2021 and earned revenues amounting to $53,378 million in FY 2022 and $32,903 million in FY 2021. These amounts are comprised of both intragovernmental and other than intragovernmental costs. Total net costs of operations decreased by $237 million, or 0.13%. This decrease is primarily attributable to an increase in earned revenue in the Research, Development, Test and Evaluation appropriation related to system development, demonstration, and management.

Consolidated Statements of Changes in Net Position

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

Figure 12 shows the three components of the Army net position for FY 2022 and FY 2021. Total net position amounted to $254,458 million in FY 2022 and $258,128 million in FY 2021, a 1.4% decrease. The decrease is attributable to the net reduction in Cumulative results of operations, driven to a large extent by net losses recognized by Army GF related to FY 2022 property, plant and equipment related revaluations, disposals and net transfers (see Note 9 to the Army GF financial statements).

Figure 12. Net Position

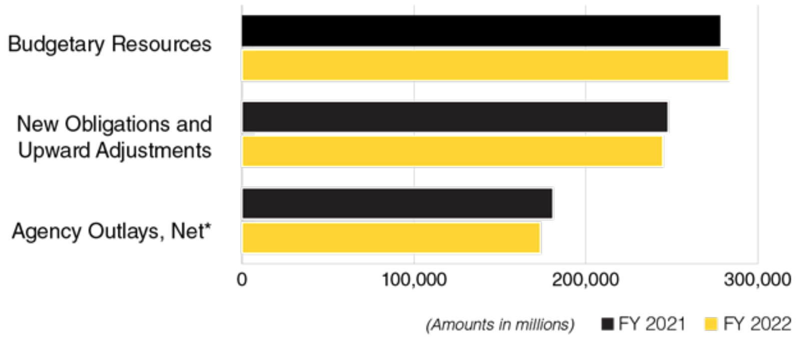


Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Army for the fiscal years ended September 30, 2022 and 2021, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments result from an order placed, contracts awarded, or similar transactions, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by the Department of the Treasury for Army obligations.

Figure 13 shows a comparison of budget authority, new obligations and upward adjustments and gross outlays in FY 2022 and FY 2021. The reported total Army budget authority was $283,086 million and $278,158 million as of September 30, 2022 and 2021, respectively, a 1.8% increase. New obligations and upward adjustments amounted to $244,866 million as of September 30, 2022 and $247,871 million as of September 30, 2021, a 1.2% decrease. Net outlays amounted to $173,622 million as of September 30, 2022 and $180,879 million as of September 30, 2021, a 4.0% decrease. The increase in budget authority is due primarily to increased Operations & Maintenance appropriations realized, as well as increased transfers in current year authority in Procurement appropriations. These increases are partially offset by reductions of $6.2 billion in spending authority from offsetting collections by Army GF during the year (see Consolidated Balance Sheets above).

Figure 13. Budgetary Resources



*net of Distributed Offsetting Receipts, see Combined Statements of Budgetary Resources (unaudited) on page 75

BUILDING AMERICA'S ARMY: READY AND RESILIENT

(U.S. Army photo by Sgt. 1st Class Edwin Basa)

ARMY WORKING CAPITAL FUND OVERVIEW

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

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

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

Appropriated Funds

The Army WCF operates without significant direct appropriations; therefore, operations generally have no fiscal year limitation on obligating funds. The Army may request direct appropriations to maintain capacity and capability to meet mobilization and wartime surge requirements. This enables stable and competitive rates for its peacetime customers. For FY 2022, the Army WCF received appropriations of $499.7 million. For FY 2021, the Army WCF received appropriations and balance transfers of almost $1,122.1 million.

(Dollars in Millions)	FY 2022	FY 2021
Appropriated Funds	$499.7	$ 1,122.1

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

The Army WCF incurs expenses and generates revenues from the sale of goods and the provision of services for a fee. The Army WCF is a big business, with an FY 2022 gross revenue totaling about $16.5 billion. Most of the revenue comes from sales to Army and Defense Department customers. To compare Army WCF revenue to private sector firms, its revenue approximates the revenues of recognizable brands like BJ's Wholesale Club and Land O' Lakes (*Fortune 500 list – 2022 as of 10/2022. Revenues in billions*):

201	General Mills, Inc.	$18.1
209	Goodyear Tire & Rubber	$17.4
211	Colgate-Palmolive Company	$17.4
212	Stanley Black & Decker	$17.3
221	BJ's Wholesale Club	$16.7
232	Land O' Lakes	$15.9
247	Lowes	$14.7

Net Operating Result (NOR)

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

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

Accumulated Operating Result (AOR)

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

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

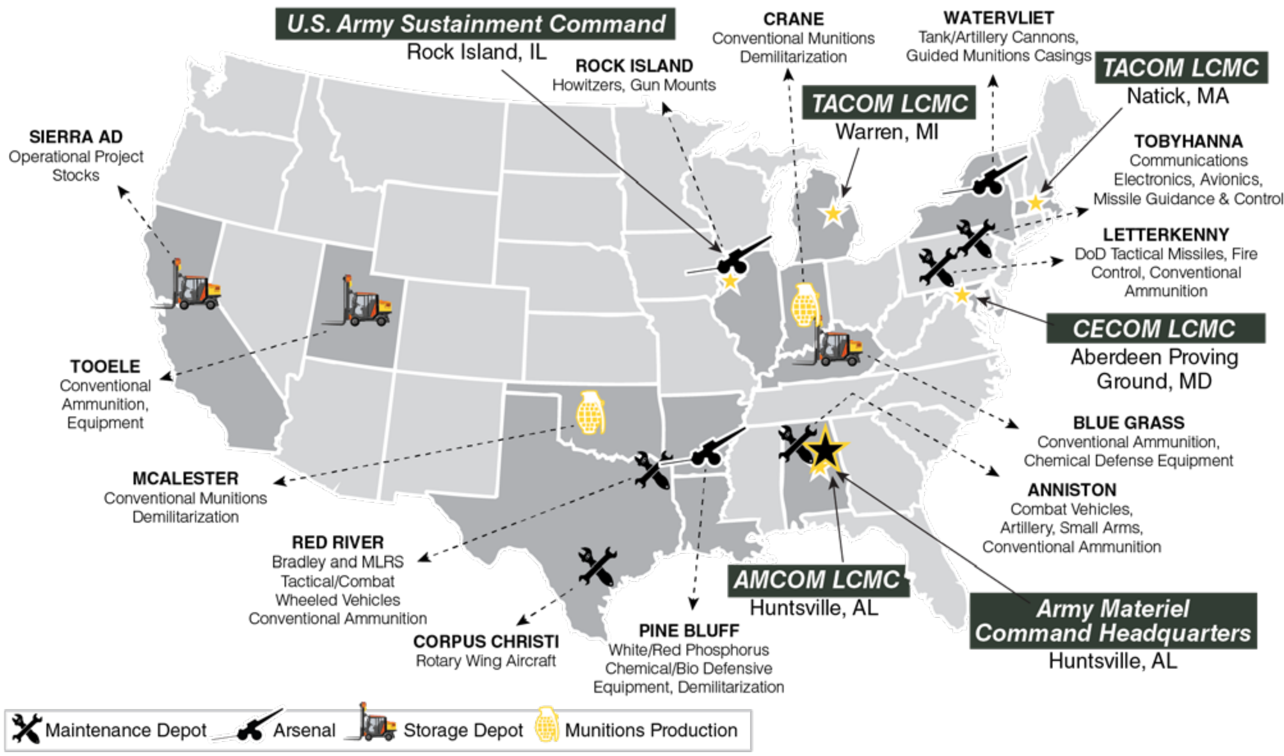
See the *Performance Goals* section for additional discussion on the AOR and NOR.

Army Materiel Command

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

(U.S. Army photo by Army Capt. Tobias Cukale)

Figure 1. Army Materiel Command Army Working Capital Fund Activities



Business Approach

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

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

Supply Management Activity

The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The activity group is committed to supporting and building readiness for present and future challenges. The Army's equipment and operational readiness, and the strength to win the Nation's wars, are directly linked to the availability of equipment and materiel. The SMA administers spare parts inventory for Army managed items, Non-Army Managed Items (NAMI) and war reserve secondary items (WRSI). It also maintains a protected inventory of spares in Army Prepositioned Stocks (APS), which is released to support deploying combat units. The Life Cycle Management Commands assigned to the AMC manage the SMA, which consists of four major commodity groups:

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

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

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

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

Industrial Operations

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

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

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

(U.S. Army photo by Nicholas Robertson)

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

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – WORKING CAPITAL FUND

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

Operational Measures and Results

Net Operating Results and Accumulated Operating Results

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

Table 1. Net and Accumulated Operating Results by Activity Group

(Amount in Millions)	FY 2020	FY 2021	FY 2022
Industrial Operations NOR	($138.6)	(261.0)	(517.5)
Supply Management NOR	1,455.7	878.7	1,676.8
Combined NOR	1,317.1	617.7	1,159.3
Industrial Operations AOR	($1,465.1)	(1,785.8)	(2,300.6)
Supply Management AOR	17,772.1	18,650.8	20,324.9
Combined AOR	16,307.0	16,865.0	18,024.3

Sources:
1) NOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.1.d & B.2.d).
2) AOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.3.).

Strategic Plan Measures and Results

Strategic Priority: Strategic Readiness

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

Strategic Readiness

Performance Goal: Operational Readiness

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

Objective 1.1: *Performance to Promise (P2P)*

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

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

Performance Results: The below table displays the IO activity group's ability to meet performance requirements within the required time period throughout the fiscal year. While IO met requirements within the planned timeframe more than 90% of the time throughout the entire fiscal year, IO does not accept the status quo and continues to make improvements through organization culture changes and process improvements. Although the COVID-19 pandemic has presented some external challenges, IO is committed to improving internal processes and providing quality products.

Table 2. Cumulative Performance to Promise: All Plants

	Oct21	Nov21	Dec21	Jan22	Feb22	Mar22	Apr22	May22	Jun22	Jul22	Aug22	Sep22
Met	953	939	990	1,052	1,106	1,169	1,163	1,178	1,154	1,113	1,160	1,087
Not Met	86	71	60	48	49	33	36	28	41	68	44	28
Sum	1,039	1,010	1,050	1,100	1,155	1,202	1,199	1,206	1,195	1,181	1,204	1,115
Percent	92%	93%	94%	96%	96%	97%	97%	98%	97%	94%	96%	97%

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

Objective 1.2: *Supply Availability*

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

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

Performance Indicator (metric): Supply availability and equipment readiness are the foundation of materiel readiness, ensuring Soldiers and units have the right equipment, parts and materiel to achieve their mission – anytime, anyplace. Life Cycle Management Commands (LCMC) are responsible for ensuring inventory levels are sustained with sufficient material to meet current and contingency operations. The SA metric is a monthly measure and highlights the Army's ability to meet operational requirements by assessing LCMC's ability to meet material availability performance goals that contribute to readiness. Material backorders are closely monitored as part of supply availability as they have a negative impact to SA (As an example, if a material is required and not available because it is backordered, SA for that material would be reduced for the duration of the Administrative and Production Lead Times (ALT/PLT) for contracting which averages 18-24 months).

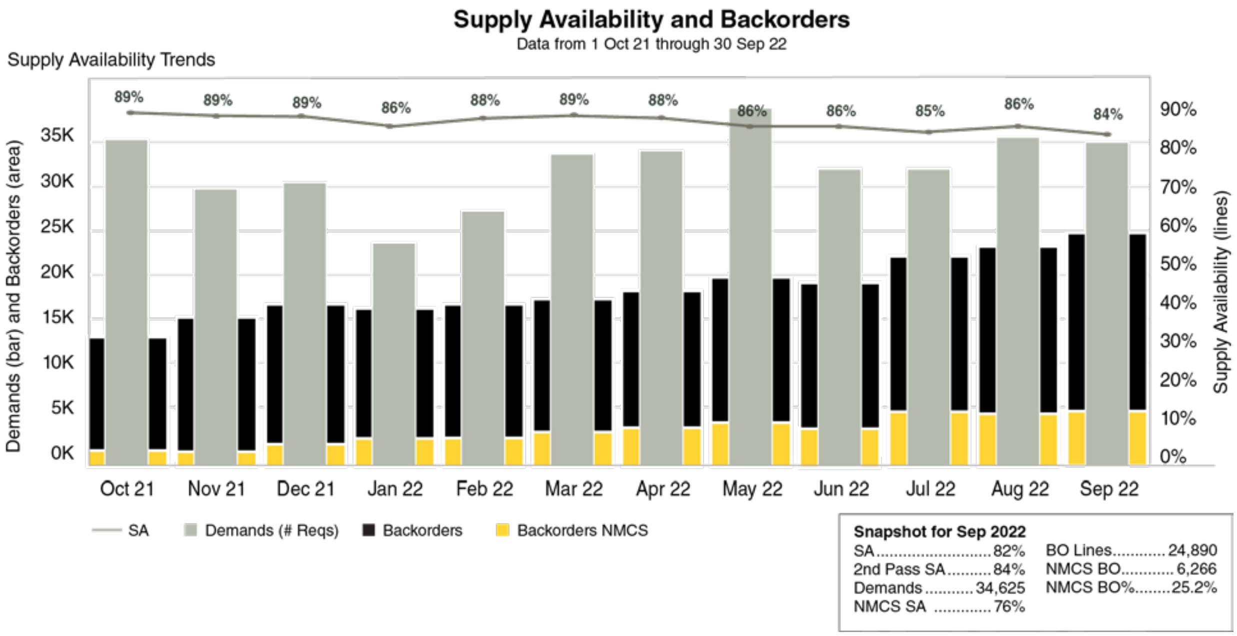
While the Office of the Secretary of Defense has established an SA goal with a range between 82% and 89%, AMC leadership has established an SA goal of 100% and challenged LCMCs with a target SA rate of 92%. While the LCMC's have met this goal in prior years, several things have contributed to their ability to do so during FY 2022. With the requirement to reduce cost through the third quarter coupled with demands and sales exceeding the plan by over 10%, which is driven by current operations, AMC depleted inventory at a faster rate than projected. As a result, by the end of FY 2022, SA dipped down to 84% while backorders have doubled.

Performance Results: The table below shows SA and Backorders in relationship with demand during FY 2022. Both Demand and Sales have seen significant increases during FY 22 as a result of current European operations and increased training activity. Based on current changes in training strategy and adjustments to stock levels, it is projected that Supply Availability will decrease to 80-83% by the end of FY 2023 if the Army is mandated to continue cost reduction efforts. The table also provides supply availability and a count of outstanding backorders associated with a "Not Mission Capable Supply" (NMCS) condition. These NMCS backorders, which drive delays in obtaining replacements for failed items, are preventing a weapon system from preforming its mission. Current projections indicate that backorders will increase by $350 million by the end of FY 2023 as a result of changes in the demand base due to current operations and new equipment fieldings.

"Journal Vouchers: Generally, short term supported financial balancers used while financial statements are under construction. Emphasis on short term."

Anitra Morrison
Director, Financial Reporting, ASA (FM&C)

Figure 2: Supply Availability (SA) (Percentage)



Audit Improvements

The Army WCF continues to progress toward an audit opinion with improved controls, increased accuracy and completeness of data, and enhanced ability to respond to auditor requests. During FY 2022, Army WCF continued its focus on the Secretary of Defense's audit priorities, high impact findings, material weaknesses, and compliance with regulatory standards across priority areas. Remediating problems in these areas will not only help the Army WCF produce accurate and reliable financial statements but will also improve operations and readiness.

The Army WCF took many great steps in FY22 to improve financial management accuracy and procedural compliance, which include the following:

Systemic Reconciliations

The Army WCF successfully transferred over 30 reconciliations to Advana, the centralized data and analytics platform used by the Department of Defense. This includes a diverse range of reconciliations between the Logistics Modernization Program (LMP), the accounting system of record for the Army WCF, and inventory management systems such as Defense Logistics Agency's (DLA) Distribution Standard System (DSS), procurement systems such as Standard Procurement System (SPS), and accountable property systems of record (APSRs) such as Defense Property Accountability System (DPAS). This required the Army WCF to establish data feeds from over 40 systems providing over 400 financially relevant data tables. Additionally, the Army WCF provided access to hundreds of stakeholders responsible for research, analysis, and supervision of the performance of the reconciliations. In FY23, the Army WCF will develop additional reconciliations and data solutions, while continually improving upon existing data solutions to assist in ensuring transactional details are accurate on our financial statements.

Fund Balance with Treasury

The Army WCF and its service provider, the Defense Finance and Accounting Service (DFAS), also made significant progress on reconciling the Army WCF Fund Balance with Treasury (FBwT). The Army WCF was able to migrate logic into Advana to support the reconciliation of LMP data to Treasury data, which allowed for improved research and variance categorization using workflow capabilities.

Inventory

The Army WCF also enhanced monitoring controls over its Inventory processes. Previously when executing monitoring controls for inventory, responsibility for performing research and resolution of discrepancies was not clear due to a variety of factors, such as differences between an asset's custodian and owner. To address this gap, the Army WCF developed a Responsible Party Framework that allows Army WCF to identify a responsible party for any inventory discrepancy, improving control effectiveness and reliability. The Army WCF also developed and implemented a plant management review process to identify inventory balances by warehouse management system, custodian, location, and other criteria used in performance of the audit. This allows for more visibility of inventory balances and better inventory data for audit procedures.

The Army WCF uses Stock Transport Orders (STOs) to physically move inventory assets across storage locations without a change in ownership. The Army WCF has consistently seen a high volume of STOs that remain open beyond expected timeframes. To address this issue, the Army WCF developed a STO Monitoring process which identifies open STOs in LMP and draws related information from internal and external systems. This information provides AMC's Major Subordinate Commands (MSCs) with data necessary for performing causative research and to take corrective actions as appropriate. AMC's MSCs have used this data to perform clean-up of aged STOs and work with stakeholders and custodians at both Army and non-Army locations to correct issues that cause open STOs.

Operating Expenses

In addition, the Army WCF made improvements in FY22 to its accounting procedures to ensure that financial statements more accurately reflect expenses incurred during the accounting period. The Army WCF developed and implemented improved tools for reviewing service contracts, including obligations incurred, expenses incurred-to-date and accrual indicators. This has allowed the Army WCF to execute a more robust monitoring of service contracts to ensure proper accrual of service expenses in accordance with policy.

Intergovernmental Activity

The Army WCF developed monitoring controls in FY22 to review the transfer of property, such as inventory and general property, plant, and equipment, between governmental entities to ensure proper reporting on the financial statements. Historically, there were incorrect accounting postings impacting the transfer balances in the accounting system and/or missing information required to identify and properly report the transfer. The Army WCF corrected the majority of the transactions and worked with stakeholders

(U.S. Army photo by Spc. Hassani Ribera Soto)

(Photo courtesy of the U.S. Army)

to identify the appropriate information to support financial reporting. As a result, an unsupported accounting adjustment was reduced by more than $93 million (87%) when compared to FY 2021. These efforts assist in ensuring that the Army is accurately reporting transfer activity in the financial statements and with the remediation of the general ledger adjustments and intra-governmental/intra-entity transactions material weaknesses.

The Army WCF also improved accounting related to Internal Work Performed (IWP), business the Army WCF does with itself between business lines (i.e., SMA sells inventory to IO Activities). Specifically, The Army WCF implemented a monthly monitoring control to ensure IWP accounting results in reciprocal postings to the general ledger. The control resulted in a corrective entry of more than $333 million. Additionally, the Army WCF recorded a correction of an error of more than $35 million which resulted from incomplete accounting postings associated with IWP activities. These efforts demonstrate significant progress and support remediation efforts for the intra-governmental/intra-entity transactions material weakness.

Possible Future Effects of Existing Condition and Financial Demands

Today's political environment is one that almost ensures the likelihood of major contingency efforts in multiple areas at a time. The Army WCF operations are critical to providing supplies, materiel, and services that ensure unit and soldier readiness for current and future deployments and contingencies. As Army WCF investments to promote readiness continue, the Army WCF may expand investment in modernization to achieve greater future lethality and to build the future force and infrastructure through the entire organizational spectrum. This kind of process engineering will look across the entire Army WCF enterprise including its doctrine, organization, training, materiel, leadership and education, personnel, and facilities.

ANALYSIS OF FINANCIAL STATEMENTS – WORKING CAPITAL FUND

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

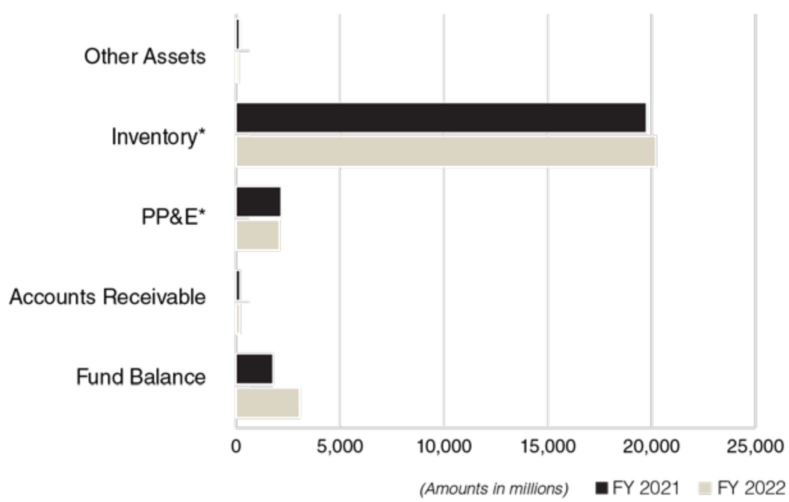
The Army WCF Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army WCF, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2021 to FY 2022. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

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

Figure 3 shows the Army WCF Assets comparison as of FYs 2022 and 2021. Total assets amounted to $25,657 million at the end of FY 2022, while $24,051 million in total assets were reported by the end of FY 2021, a $1,606 million increase (7%). This increase is mainly attributable to a more than $1,287 million increase in Fund Balance with Treasury (FBwT) since the prior year. The FBwT increase was affected by the $1,438 million reduction in net outlays. There was also a $434 million increase in the Net Inventory during the same period in anticipation of customer requirements.

Figure 3. Assets Comparison

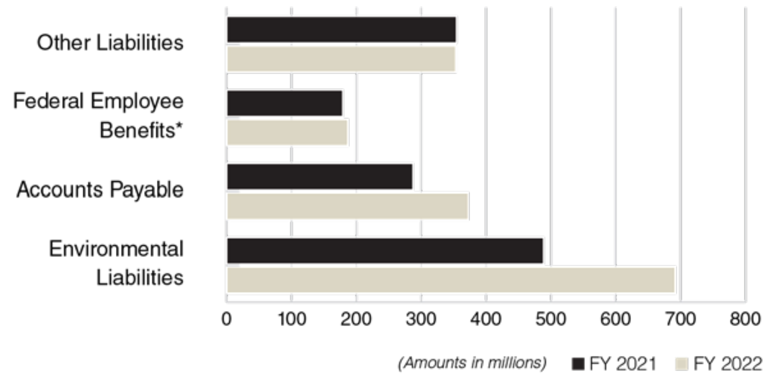


*The FY 2021 Inventory balance has been restated to reflect the impact of a prior period adjustment.

Liabilities totaled $1,606 million as of the end of FY 2022, an almost $262 million increase (19%) since FY 2021 when $1,344 million in liabilities were reported. This increase was largely driven by the $204 million increase in the Army WCF's environmental liability, resulting from both the addition of the Resource

Conservation and Recovery Act (RCRA) facilities in the Army WCF's estimate and an increase in open burn/open detonation closures. Figure 4 shows the breakout of the Army WCF's liabilities as of the end of FYs 2022 and 2021.

Figure 4. Liabilities Comparison



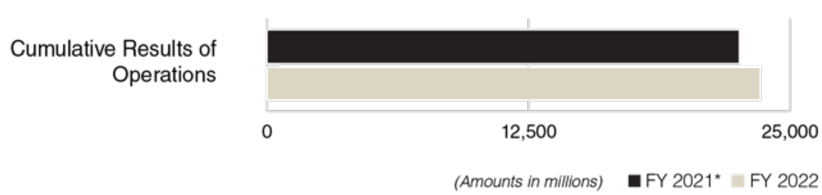
Consolidated Statements of Net Cost

The Consolidated Statements of Net Cost present the gross cost incurred by the Army WCF to conduct its operations less any exchange revenues earned from its activities. The major elements of the Consolidated Statements of Net Cost include program costs totaling $14,437 million in FY 2022. These costs were offset by earned revenues of $15,186 million, resulting in $749 million net revenue from operations. During FY 2021, program costs were more than earned revenue by almost $775 million. The $1,524 million decrease in net cost is directly related to shifts in current customer demands and some stabilization in costs after the COVID-19 pandemic. During FY 2021, the Army WCF begin to meet current customer demands with existing inventory resulting in increases in costs incurred due to COVID-19. We see reductions in those costs into FY 2022 and increases in gross revenue.

Consolidated Statements of Changes in Net Position

The Consolidated Statements of Changes in Net Position present the change in net position during the reporting period. The Army WCF's net position is impacted by both the results of operations and other financing sources which include appropriations. The Army WCF's net position increased $1,344 million during FY 2022 and increased by over $514 million during FY 2021. Total net position amounted to $24,051 million in FY 2022 and $22,707 million in FY 2021, a 5.9% increase. Figure 5 shows the Army WCF's Cumulative Results of Operations, a primary component of its Net Position, for FY 2022 and FY 2021. The $1,020 million increase is attributed to a $1,524 million reduction in the Net Cost of Operations from $775 million in net cost during FY 2021 to $749 million net earnings during FY 2022.

Figure 5. Cumulative Results of Operations

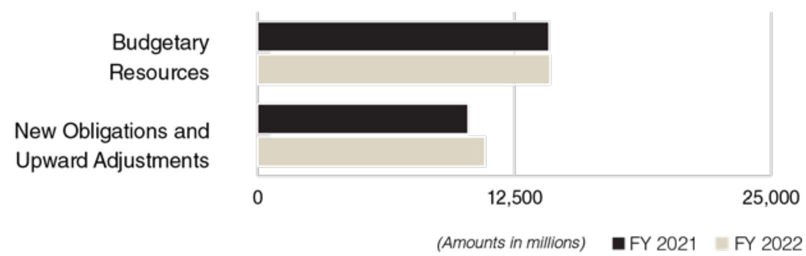


Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources provide information related to the budgetary resources that were made available to the Army WCF as of FY 2022 and FY 2021, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments result from orders placed, contracts awarded, or similar transactions. Gross outlays reflect the actual cash disbursed for Army obligations.

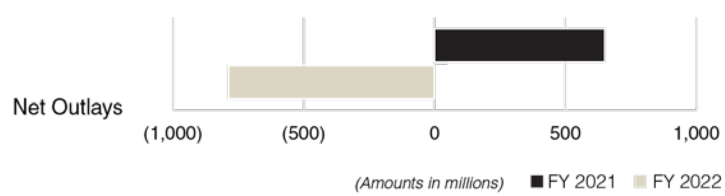
Figure 6 shows a comparison of budget authority and new obligations and upward adjustments in FY 2021 and FY 2022. The reported total Army WCF budget authority was $14,235 million and $14,174 million for FYs 2022 and 2021, respectively. The almost $61 million increase in budget authority is primarily due to an increase in anticipated customer requirements offset by a reduction in the unobligated balance brought forward that resulted from the correction in the prior year unobligated resources.

Figure 6. Budgetary Resources



The Statement of Budgetary Resources reflects the Army WCF's Net Outlays, which are gross outlays net of offsetting collections. Figure 7 presents a year to year comparison of net outlays which totaled ($788) million (net receipts) and $650 million during FY 2022 and FY 2021, respectively. The $1,438 million decrease in net outlays is largely influenced by the reduction in cash expenditures required to meet customer requirements.

Figure 7. Net Outlays




(U.S. Army photo by Sgt. Agustín Montañez)

(U.S. Army photo by by Spc. Joshua Taeckens)

GENERAL FUND AND WORKING CAPITAL FUND MANAGEMENT ASSURANCES

Analysis of Systems, Controls and Legal Compliance

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

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

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

Internal Controls Governance

The Deputy Assistant Secretary of the Army (DASA) for Financial Operations (FO), the DASA for Financial Information Management (FIM), and the Commanding General of the U.S. Army Financial Management Command (USAFMCOM) worked jointly to execute the Business Process Management (BPM) program to successfully capture seven end-to-end financial processes across the Army General and Working Capital Funds that trigger a financial event impacting the general ledger and financial statements. The BPM mission is to improve and optimize Army standardized processes, both classified and unclassified, that pertain to finance policies, systems, and reporting requirements; provide end-to-end field implementation support for processes and deliver campaigns that improve readiness and establish a culture of audit success. The Army will leverage the documentation in the coming years to streamline testing efforts across the organization.

Internal Control Evaluation

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

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

During Fiscal Year (FY) 2022 each reporting organization was required to review their ICEP (internal control evaluation plan) to align with their Risk Assessment. Specifically, higher risk areas were monitored on a more frequent basis than lower risk areas. Testing is facilitated by the Department of the Army (DA) Form 11-2 and an internal control checklist with supporting documentation. Army Reporting Organizations conduct testing of the key processes listed on their ICEP facilitated by the DA Form 11-2. These forms are retained with evidence of the completed testing. Testing included identifying material key processes that were included in the risk assessments, developing test plans (with the consideration of nature, timing, and extent), selecting the testing method, executing testing of automated versus manual controls, and summarizing/analyzing the results.

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

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

In addition to the 16 ICOFR material weaknesses for the Army General Fund (GF) and Working Capital Fund (WCF), there are three compliance material weaknesses and four operational material weaknesses for a total of 23 material weaknesses.

The Army GF currently has 14 IPA-identified financial statement material weakness categories: 1) Beginning Year Balances; 2) Operating Materials and Supplies; 3) Property, Plant, and Equipment – Real Property; 4) Property, Plant and Equipment – General Equipment; 5) Environmental and Disposal Liabilities; 6) Evidential Matter; 7) Information Technology Controls; 8) General Ledger Adjustments; 9) Accruals/Accounts Payable and Accounts Receivable; 10) Financial Reporting; 11) Fund Balance with Treasury; 12) Completeness, 13) Entity Level Controls; and 14) Intra governmental Transactions and Intra-entity Eliminations.

The Army WCF currently has 15 IPA-identified financial statement material weakness categories: 1) Beginning Year Balances; 2) Inventory; 3) Property, Plant, and Equipment – Real Property; 4) Property, Plant and Equipment – General Equipment; 5) Environmental and Disposal Liabilities; 6) Revenue; 7) Evidential Matter; 8) Information Technology Controls; 9) General Ledger Adjustments; 10) Accruals; 11) Financial Reporting; 12) Fund Balance with Treasury; 13) Completeness, 14) Entity Level Controls; and 15) Intra governmental Transactions and Intra-entity Eliminations.

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

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

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

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

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

Limitations of the Financial Statements

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

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

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

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

November 8, 2022

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

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Department of the Army General Fund Financial Statements and Related Notes for FY 2022 and FY 2021 (Project No. D2022-D000FI-0039.000, Report No. DODIG-2023-014)

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to audit the U.S. Department of the Army (Army) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2022, and 2021. The contract required KPMG to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the Army's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army General Fund Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army General Fund FY 2022 and FY 2021 Financial Statements and related notes.

KPMG's report, "Report on the Audit of the Consolidated Financial Statements," discusses 14 material weakness categories related to the Army's internal controls over financial reporting.[*] Specifically, KPMG concluded that the Army did not:

- prepare complete and accurate populations for beginning balances;
- identify all key financial statement risks associated with accounting for and reporting Operating Materials and Supplies;
- provide a complete and accurate population and value of Real Property;
- provide a complete and accurate population, track additions and disposals, and value of General Equipment, including software;
- develop estimates and verify the accuracy of its environmental and disposal liabilities;
- provide and maintain sufficient supporting documentation to demonstrate that balances and transactions were properly reported on the financial statements and control activities were performed;
- ensure the effective design, implementation, and operation of financial information systems controls;
- demonstrate that manual journal entries to the general ledger were complete, accurate, and valid;
- identify, classify, and accurately record accounts payables and accounts receivables accruals for goods and services;
- present information and make required disclosures in accordance with Generally Accepted Accounting Principles and prevent or detect and correct misstatements;
- ensure intragovernmental transactions were reconciled and recorded and intra-entity eliminations were adjusted and supported;

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

- document controls and reconcile Fund Balance With Treasury using reliable financial data;

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

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

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

In connection with the contract, we reviewed KPMG's report and related documentation and discussed them with KPMG's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Army General Fund FY 2022 and FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 8, 2022 report, and the conclusions expressed within the report.

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

Lorin T. Venable

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

Attachment:
As stated

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

Independent Auditors' Report

Secretary of the Army
Inspector General of the Department of Defense

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of the United States (U.S.) Department of the Army (Army) General Fund (GF), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of net costs, consolidated changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Disclaimer of Opinion

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

Other Matter - Interactive Data

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

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Army GF's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards*, and OMB Bulletin No. 22-01, and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

Required Supplementary Information

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

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the Army GF's consolidated financial statements as of and for the year ended September 30, 2022, we considered the Army GF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army GF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Report on Compliance and Other Matters

In connection with our engagement to audit the Army GF's consolidated financial statements as of and for the year ended September 30, 2022, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01, and which are described in the accompanying Exhibit II.

We also performed tests of the Army GF's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Army GF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

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

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

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

Purpose of the Reporting Required by *Government Auditing Standards*

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

KPMG LLP

Washington, D.C.
November 8, 2022

A. Beginning Year Balances

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

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

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

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

Recommendations:

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

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

B. Operating Materials and Supplies

Management did not consistently design, implement, and document internal controls over Operating Materials and Supplies (OM&S) as follows:

- Management did not demonstrate the value of OM&S was properly reported at historical cost on the balance sheet. In addition, management applied the most recent standard purchase price to value OM&S at period end and did not use an appropriate cost flow assumption to arrive at historical cost.
- Management did not design and implement controls to accurately record OM&S transactions in the appropriate U.S. Standard General Ledger (USSGL) account in the correct accounting period, produce populations of financial transactions, and disclose all relevant information in accordance with the accounting standards.
- Management did not design processes and controls to expense OM&S when issued to the end user rather than in the period purchased.
- Management did not design and implement policies and controls to accurately account for, and report excess, obsolete, and unserviceable inventory. Management did not design, implement, or document processes and controls (e.g., sensitivity analysis, lookback analysis, etc.) to assess the effect of estimation uncertainty. Additionally, management did not adequately disclose factors related to estimation uncertainty of the estimated costs to demilitarize assets.
- Management did not consistently design and implement controls over OM&S inventory as documentation was not readily available and did not consistently demonstrate OM&S inventory was completely and accurately recorded.
- Management did not consistently implement policies, procedures, and controls to support ownership of OM&S assets.
- Management did not determine the appropriate accounting treatment for Work-In-Process munitions, other classes of supplies that meet the definition of OM&S, and items held for repair or remanufacture.
- Management did not complete cycle inventory counts with adequately defined precision to identified inventory risk and enforce consistent implementation of reviews over inventory adjustments.

The above conditions primarily resulted because management did not identify all key financial statement risks associated with accounting for and reporting OM&S. As such, they do not have policies and procedures designed and implemented to address the risks. Control operators were not consistently aware of, properly trained, and/or did not understand and comply with existing policies. Management did not have robust procedures to monitor its internal controls and evaluate the results. Additionally, management did not fully implement corrective action plans to address deficiencies due to competing priorities.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Environment*
- Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) 1: *Accounting for Selected Assets and Liabilities*, SFFAS 3: *Accounting for Inventory and Related Property*, Interpretation of Federal Financial Accounting Standards 7: *Items Held for Remanufacture*, SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, Statement of Federal Financial Accounting Concept (SFFAC) 5: *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*

- Office of Management and Budget (OMB) Circular Number (No.) A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular No. A-123)
- Treasury Financial Manual (TFM)
- U.S. Department of Defense (DoD) and Army standard operating procedures, regulations, policies, and guidance

As a result of deficiencies noted above, the potential exists that misstatements in the OM&S balance on the balance sheet, statement of net cost, and related notes would fail to be prevented, or detected and corrected.

Recommendations:

We recommend management design, implement, and document controls to perform the following:

- Properly report the value of OM&S on the balance sheet. Specifically, Army should complete valuing OM&S in accordance with SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, and design, implement, and document controls to calculate and capture historical costs in accordance with SFFAS 3: *Accounting for Inventory and Related Property*.
- Properly record cost of goods used as operating expenses in the period when the OM&S assets are issued to the end user.
- Determine OM&S assets are completely and accurately reported. Validate and support that asset quantities and key data elements are properly recorded in the accountable property systems, transactions are reconciled and recorded properly in the financial system, transactions are recorded in the correct period and USSGL accounts, and documentation is maintained and readily available.
- Perform and document an assessment of the risks of misstatement in the OM&S financial reporting process and design and implement controls responsive to the risk assessment to completely and accurately reconcile, classify, and report all assets that meet the definition of Army owned OM&S as of the balance sheet date in the financial statements, and exclude assets not meeting the definition of OM&S from the financial records.
- Develop and distribute updated policies and guidance and provide training to control operators to consistently execute processes and controls as well as enforce and monitor that control operators are performing the controls as designed.
- Develop policies and procedures for documenting, approving, and recording data corrections, and performing causative research. Also, perform an analysis to identify transaction that did not post and perform necessary system updates.
- Monitor the results of the sealed site program to evaluate the potential for exclusion of OM&S assets from the physical inventory counts. Additionally, provide guidance to personnel performing inventories for handling exceptions such as when identification information is either missing or unclear.

C. Property, Plant, and Equipment – Real Property

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

- Management did not provide sufficient appropriate documentation to demonstrate the valuation of real property was properly reported at historical cost on the balance sheet and related note disclosures.
- Management did not effectively design and implement controls to verify real property, heritage asset, and land acreage data elements (location, serial number, ownership) were supported and completely and accurately recorded in the property system in a timely manner. In addition, management did not design its real property physical inventory processes to include performing procedures to verify that real property balances were complete and accurate.
- Management did not effectively implement controls over the reconciliations between the property system and the accounting system.
- Management did not effectively design, implement, and document controls over recording acquisitions, disposals, transfers, depreciation, and impairments of real property. In addition, management did not design adequate processes to record complete and accurate capitalized costs for real property and for costs associated with transferring assets.
- Management did not design and implement controls to accurately identify, classify, and report multi-use heritage assets within the real property population.

The above conditions primarily resulted because management did not do the following:

- Define objectives, identify risks to achieving objectives, and respond to risks by: designing and implementing appropriate types of control activities; documenting policies and controls; recruiting and developing personnel; communicating responsibilities, policies, procedures, and quality information to personnel; and monitoring controls to ensure they are operating effectively.
- Identify and evaluate relevant information requirements and processing objectives to obtain relevant data from reliable internal and external sources in a timely manner.
- Complete and document and monitor corrective actions to remediate internal control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment*, SFFAS 44: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, SFFAS 29: *Heritage Assets and Stewardship Land*, and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD Financial Management Regulation (FMR)
- DoD, Army, and U.S. Army Corps of Engineers (USACE), policies, regulations, and instructions

As a result of deficiencies noted above, the risk exists that misstatements in the general property, plant and equipment balances in the balance sheet and related notes would fail to be prevented, or detected and corrected.

Recommendations:

We recommend management perform the following:

- Complete the process of valuing the opening balances of real property in accordance with SFFAS 50 including updating policies to define what constitutes key supporting documentation for the consistent and accurate reporting of the valuation of real property, communicate the policies throughout the Army, and establish and implement controls to maintain sufficient appropriate supporting documentation to demonstrate that the valuation of real property is properly reported on the balance sheet.
- Timely communicate, monitor, research, and update the property system based on differences identified between the property system and inspection documents. Implement controls over the monthly change report and proper record retention.
- Design, implement, and document controls to determine that the key data elements are timely and properly recorded in the property systems, to generate a complete and accurate capital asset report, to reconcile the capital asset listing to the financial reporting system, and to ensure proper valuation and completeness of real property. Additionally, management should design, implement, and document controls to report ownership of real property assets in the context of financial reporting and retain all relevant supporting documentation to be readily accessible.
- Identify risks relevant to financial statement assertions for construction in process transactions including transfers. Design and implement policies, procedures, and controls to address the completeness, existence, and accuracy of construction in process at year end.
- Design and implement controls to ensure effectively supported and consistently allocated costs between real property facilities, to identify and financially report real property impairment, and to accurately identify, classify, and report multi-use heritage assets.

D. Property, Plant, and Equipment – General Equipment

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

- Management did not provide sufficient appropriate documentation to demonstrate the valuation of general equipment and internal use software was properly reported at historical cost. Management applied an alternative valuation methodology by recording a portion of general equipment at current standard catalogue purchase price.
- Management did not effectively implement controls to verify general equipment data elements were completely and accurately recorded in the property system. In addition, management did not design its physical inventory process to validate that general equipment assets existed, and balances were complete.
- Management did not effectively design and perform controls over the recording acquisitions, disposals, impairment, depreciation, and accumulating costs of construction in process. Additionally, controls were designed and implemented over remanufactured equipment, but the controls were not designed to consider obsolete/damaged assets or physical inventory counts. Lastly, management did not design processes to report deferred maintenance and repairs.
- Management did not effectively implement controls to produce complete and accurate populations for financial reporting. Specifically, management did not record transactional data in general ledger systems, or perform reconciliations between different property systems and from property systems to the general ledger system.

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

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- FASAB SFFAS 4: *Managerial Cost Accounting Standards and Concepts*, SFFAS 6: *Accounting for Property, Plant, and Equipment*, SFFAS 10: *Accounting for Internal Use Software*, SFFAS 21: *Reporting Corrections of Errors and Changes in Accounting Principles*, SFFAS 44: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, and Technical Release 14: *Implementation of Guidance on the Accounting for the Disposal of General Property, Plant & Equipment*
- OMB Circular No. A-123 Appendix D; OMB Circular No. A-136, *Financial Reporting Requirements* (OMB Circular No. A-136)
- Federal Financial Management Improvement Act of 1996 (FFMIA, Public Law 104-208, sec 803 (a))
- DoD FMR
- DoD and Army policies, regulations, and instructions

As a result of deficiencies noted above, the risk exists that misstatements in the general property, plant and equipment balances in the balance sheet and related notes would fail to be prevented, or detected and corrected.

Recommendations:

We recommend management perform the following:

- Complete the process of valuing the opening balances of general equipment and internal use software in accordance with SFFAS 50 including updating policies to define what constitutes key supporting documentation for the consistent and accurate reporting of the valuation of general equipment and internal use software, communicate the policies throughout the Army, and establish and implement controls to maintain sufficient appropriate supporting documentation to demonstrate that the valuation of general equipment and internal use software is properly reported on the balance sheet.
- Timely communicate, monitor, research, and update the property system based on differences identified between the property system and inspection documents and implement controls over proper record retention.
- Design, implement, and document controls to determine that the key data elements were properly recorded in the property systems and to require cyclical inventory counts over all government property stored at contractor facilities. Such records should generate a complete and accurate capital asset report that is reconciled to the financial reporting system and accurately presents current year balances, acquisitions, disposals, impairment, and depreciation. Relevant supporting documentation supporting the controls should be readily accessible.
- Identify risks relevant to financial statement assertions for general equipment and internal use software and design and implement policies, procedures, and controls to address these risks.
- Implement policies and procedures over accumulating and monitoring construction in process costs for general equipment.
- Design and implement controls to completely and accurately identify and financially report deferred maintenance and repairs.

E. Environmental and Disposal Liabilities

Management did not consistently design, implement, and document processes, procedures, and relevant control activities over environmental and disposal liabilities (E&DL) to:

- Verify the completeness and accuracy of real property asset and event-driven populations used to determine the environmental and disposal liabilities and assess which assets within the general equipment and hazardous waste permitted facilities asset group have environmental disposal liabilities.
- Determine the estimation model, assumptions, data inputs, cost data elements, remediation approach, and information are appropriate, accurate, and supported, consider estimation uncertainty, and are in accordance with regulatory and industry standards.
- Perform review procedures over the asset and event-driven estimates to support complete and accurate estimates prior to submission of the quarterly financial reporting package; document how the review was performed and the estimate documentation reviewed; determine the sufficiency of the estimate documentation and reasonableness of all assumptions and data elements; and maintain documentation relevant to the review process.
- Demonstrate that management's review of the environmental and disposal liabilities estimate addresses management's assumptions that the environmental and disposal liabilities are complete and accurate.
- Determine the accuracy of processes and information related to the asset-driven liability including the review of asset-driven guidance and rollforward processes.
- Perform complete retrospective reviews to assess the accuracy of the estimation methodologies used for asset and event-driven estimates and the reviews of applicable thresholds for each asset or event to determine that the thresholds are reasonable and supported. Consider cost adjustments that could impact current year estimates.
- Review and approve newly identified event-driven sites for timely and appropriate recording and recognition of the liability in the fiscal year the site is identified.
- Determine the relevance and reliability of the current cost estimating software, the underlying information within the cost estimating software, and the model used to develop asset and event-driven liability estimates.
- Determine the completeness and accuracy of Program Management costs and unliquidated obligations reported in event-driven environmental and disposal liabilities.

The above conditions primarily resulted because management did not:

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

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government and Cost Estimating and Assessment Guide*
- FASAB SFFAS 5: *Accounting for Liabilities of The Federal Government*, SFFAS 6: *Accounting for Property, Plant, and Equipment*, SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, and Federal Financial Accounting Technical Release 18: *Implementation Guidance for Establishing Opening Balances*
- DoD policies
- Army policies and guidance

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

Recommendations:

We recommend management perform the following:

- Complete comprehensive risk assessments to identify and analyze information, data, and changes for environmental and disposal liability risks and fully establish policies, procedures, and control activities to address such risks. Assign sufficiently skilled and experienced financial resources to perform relevant environmental and disposal liability reporting responsibilities, communicate responsibilities, monitor and enforce performance of controls, and timely prioritize documentation and implementation of planned corrective actions.
- Design and implement controls and processes to:
  - Perform and document reviews of the asset and event-driven populations specifically documenting who is responsible for completing review procedures, the review requirements, precision expectation for the data and assumptions, sufficiency of the estimate documentation, and timeline to complete the review.
  - Develop and document the event-driven completeness methodology and implement policies and procedures to compile and retain the complete listing of event-driven sites.
  - Identify and determine the valuation methodology for estimating future environmental disposal costs for general equipment.
  - Determine if the asset-driven guidance cost estimate assumptions and data inputs are valid and in accordance with regulatory and industry standards.
- Design and implement controls and processes to perform reviews of estimates that include a defined level of precision and verify that the estimation model, assumptions, inputs, cost data elements, information, and remediation approach are reasonable and in accordance with regulatory and industry standards. Provide an accurate and properly supported estimate that is consistently documented within internal guidance and consider a contingency to address uncertainty.
- Enhance existing procedures and control activities over the review of the environmental and disposal liability by documenting the defined precision of management’s review and supporting how conclusions were determined.

- Perform retrospective reviews for asset and event-driven estimates including defining management's acceptable thresholds for asset types and documenting management's risk assessment and conclusion on acceptable thresholds for event-driven estimates.
- Design and implement controls to align and support existing policies over timely review and approval of newly identified event-driven liabilities.
- Perform procedures to annually review verification support to determine the relevance of the cost estimating software as it directly relates to asset and event-driven estimates and maintain documentation of how management determined the information within the cost estimating software is reliable.
- Develop and document controls to verify the completeness and accuracy of unliquidated obligation and program management costs reported in event-driven environmental and disposal liabilities.

F. Evidential Matter

Management and its service provider did not consistently have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for revenue, costs, fund balance with treasury, general property, plant and equipment, OM&S, environmental and disposal liabilities, other liabilities, and other transactions were properly reported on the consolidated financial statements. Management did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the request or transactions recorded in the general ledger used to prepare the consolidated financial statements, and/or (c) was inappropriately reviewed and approved or the review and approval was not documented by management.

Management and its service providers relied on information produced by the financial and feeder systems to support certain transactions and balances on the consolidated financial statements; however, management did not have effective general information technology controls (GITCs) over such systems and therefore, did not provide reliable evidential matter.

The above conditions primarily resulted because management and/or its service provider did not perform the following activities:

- Identify, analyze, and respond to risks considering the effect on objectives.
- Determine appropriate roles, assign responsibilities, and communicate responsibilities for internal controls to personnel. Hold individuals accountable for performing assigned responsibilities and perform monitoring of design and operating effectiveness of internal controls.
- Design and implement appropriate control activities that use quality information to achieve objectives and maintain documentation of such.
- Complete, document, and monitor corrective actions to remediate internal control deficiencies on a timely basis.

The criteria are as follows:

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

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur or records in the general ledger may not represent complete, accurate, and/or valid transactions, potentially leading to a misstatement in the consolidated financial statements.

Recommendations:

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

- Perform and document a thorough risk-assessment and work with its service provider, as necessary, to design, implement, and document procedures and controls to maintain evidential matter.
- Communicate and enforce existing policies and procedures. Provide training and guidance to individuals in their responsibilities and perform monitoring of whether controls are implemented and operating as designed.

- Update policies and procedures to document and define key evidential matter that is required to support financial statement amounts and performance of controls, require the general ledger to be supported by accurate evidential matter, and have evidential matter readily available for inspection.
- Continue developing and implementing corrective actions. Devote sufficient resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, and contingency planning controls.

G. Information Technology Controls

Management and its service providers continued to make progress in addressing prior year Information Technology (IT) control deficiencies within their systems. However, management and its service providers did not fully implement sufficient and effective IT controls to protect the financial systems and related financial data. In addition, management did not implement compensating controls to address service provider's IT controls that were not effectively designed, implemented, or operated. The conditions could affect management's and the service providers' ability to provide timely financial data that is complete, valid, and accurate. Our specific findings are summarized as follows:

- **Access Controls**. Management and its service providers did not consistently design, implement, and operate the operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end, privileged, and system administrative users, as well as system administrative default powerful user profiles. Management and it service providers did not consistently conduct and document periodic reviews of user accounts on at least an annual basis, to include the removal of access for terminated or transferred employees and contractors and to determine the need for continued and appropriate access based on least privilege principles, and user inactivity. In addition, management and its service providers did not consistently design and implement operating system, database, and application audit logging and review controls, including security event identification, tracking, evaluation, and response procedures as well as restricting access to the log report to an independent person who is not the subject being monitored. Further, management and its service providers did not consistently implement periodic reviews of application, database, and operating system password security and inactivity configuration parameters.
- **Segregation of Duties**. Management and its service providers did not consistently design, implement, and operate controls preventing and/or detecting the inappropriate use or provisioning of incompatible operating system, database, and/or application privileges based on least privilege concepts. Further, management did not consistently design, document, and implement controls over the restriction of access to the ERP and feeder system segregation of duties risk rule sets based on least privilege considerations. In cases where incompatible access privileges were required based on business need, management and its service providers did not consistently implement controls to monitor the activities of users granted access to such privileges to ensure unauthorized activities were detected and addressed in a timely manner. Additionally, management and its service providers did not consistently segregate/monitor the use of incompatible access privileges related to system support functions that preclude system developers from updating production environments.
- **Configuration Management**. Management and its service providers did not consistently design, implement, and operate the operating system, database, and application layer configuration change management controls, to include controls that enable approved changes to be traced back to the production environments and timely installation of critical patch updates. For implemented processes, management and its service providers did not consistently design and maintain evidence to support the identification and tracking, testing and/or approval of operating system, database, and application changes/patches before migration into the production environment. In addition, management and its service providers did not design controls to provide system-generated listings of all users with access to the configuration control environments.
- **Security Management**. Management and its service providers did not consistently design, implement, and operate vulnerability management and assessment programs for the operating systems, databases, and/or applications. For implemented programs, management did not consistently track all known vulnerabilities and associated remediation activities within Mitigation Action Plans (MAPs) or Plans of Actions and Milestones (POA&Ms).

- **Job Processing**. Management and its service providers did not consistently design, implement, and operate controls to restrict access to the job scheduler based on least privilege concepts. In addition, management was unable to provide evidence that job schedule changes are tracked, tested, approved, and implemented to the production environment in accordance with policies and procedures. Further, management did not design, document, and implement controls over job processing to identify, track, notify, and resolve processing issues.

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

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4*, dated April 2013 and Revision 5, dated September 2020
- Army policies and guidance
- DoD policies, instructions, memorandums, and other guidance

As a result, the weaknesses posed increased risks to the completeness, accuracy, validity, confidentiality, and availability of the systems and their financial data.

Recommendations:

We recommend management strengthen its systems environments and/or implement compensating controls for the operating system, database, and application layers, as follows:

- Identify risks and implement controls to address the risks to protect the accuracy, integrity, validity, confidentiality, and availability of the systems and financial data.
- Prioritize corrective actions and assign sufficient resources to implement the plans to design, document, implement and effectively operate policies and controls; for access controls, segregation of duties, configuration management, security management, and job processing at the operating, database, and application layers.
- Implement compensating controls to address service providers' IT controls that are not effectively designed, implemented, or operated.
- Enforce existing policies and provide oversight and monitor the IT controls.
- Develop or update and implement policies and procedures for controls.
- Provide trainings to reinforce its designed process and policies for access controls at the application, database, and operating system layers.

H. General Ledger Adjustments

Management did not properly design and implement internal controls over manual journal entries and other adjustments to the general ledger as follows:

- Management did not design controls to demonstrate that manual journal entry listings are complete and accurate and that all necessary adjustments were completely and accurately reflected in the general ledger.
- Management has not fully implemented controls to identify manual journal entries that are subject to increased risk due to management override of controls from transactions entered through normal business processes in its main accounting system of record and other general ledger systems.
- Management did not research the underlying causes of the need for manual journal entries to determine that the journal entries were appropriate. For example, management recorded manual journal entries in the financial reporting system to correct account relationships, edit checks, and abnormal balances. Although management and its service provider self-identified and corrected erroneous or inaccurate manual journal entries, the journal entry review control did not initially prevent the recording of the entries.
- Management recorded manual journal entries and other adjustments without appropriate documentation to support the preparer or approver of the journal entry, attributes being adjusted and the underlying events of the journal entry.

The above conditions primarily resulted because management did not:

- Identify, analyze, and respond to various types of risk throughout the entity related to achieving defined objectives.
- Design appropriate control activities in response to objectives and risks, including objectives related to information processing.
- Evaluate information processing objectives to meet the defined information requirements.
- Design the entity's information system to obtain and process information to meet each operational process's information requirements and respond to the entity's objectives and risks.
- Use ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of the service organization's internal controls over the assigned process.
- Complete, document, and monitor corrective actions to remediate internal control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- TFM
- DoD FMR

As a result of the deficiencies over manual journal entries and other adjustments, the risk exists that process level internal controls may be overridden, and a misstatement may occur in the financial statements and related note disclosures.

Recommendations:

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

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

I. Accruals/Accounts Payable and Accounts Receivable

Management did not fully design, implement, and document controls over accounts payable and accounts receivable accruals to reflect underlying events completely and accurately. Specifically, management did not have adequate controls in place as follows:

- Management did not develop methodologies to record accruals for goods, services, and unfunded leave received or earned but not yet invoiced at period end. Army's methodology for recording accruals for certain activities included recording known amounts but no estimate was made to account for goods and services received but not recorded at period end.
- Management implemented accrual methodologies for certain revenue, expense, and military payroll activities, however, the methodologies were not sufficient to record accounts payable and accounts receivable completely and accurately. Deficiencies included: excluding data or using imprecise data; failure to assess whether accruals are probable, measurable, and meet the criteria to be recorded as a liability; failure to record the full amount of developed accruals in the general ledger; and lack of a retrospective review to validate the accuracy of assumptions.
- Management did not design and implement controls or system requirements for all procurement processes to consistently validate the receipt and acceptance of goods and services prior to recording in the general ledger.
- Management did not have policies and procedures to produce summarized populations of open accounts payable, military leave liability, accrued funded payroll and leave, and accounts receivable as of the balance sheet date that reconcile to the financial reporting system.

The above conditions primarily resulted because management did not:

- Effectively complete risk assessment activities, such as identifying, analyzing, and responding to risks based on such analysis. Responses did not always consider the costs and benefits of documentation requirements as it relates to Army's objectives.
- Design and perform appropriate control activities in response to the entity's objectives and risks. Such design did not always include documentation and communication of key aspects of control operation to control owners.
- Obtain, process, and use quality data from reliable internal and external sources.
- Complete, document, and monitor corrective actions to remediate internal control deficiencies on a timely basis.

The criteria are as follows:

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

By not recording the necessary accruals and adjustments, the risk exists that accounts payable and accounts receivable reported in the consolidated financial statements and related note disclosures could be misstated.

Recommendations:

We recommend management perform the following:

- Design, implement, document, and adhere to methodologies to completely and accurately account for activities received or due as of period end. Methodologies should include documentation of the key assumptions, validation of completeness and accuracy, and policies, procedures, and controls to identify and record accruals. Such documentation should demonstrate that liabilities are probable, measurable, and meet the criteria to be recorded as a liability and the amounts recorded are complete and accurate.
- Develop and implement policies, procedures, and internal controls, and maintain sufficient documentation to demonstrate the following activities:
  - Retrospective review over the accuracy of estimation methodologies.
  - Receipt and acceptance of goods and services.
- Research and resolve configuration issues to generate complete and accurate summarized population reports for open balances. Devote sufficient resources to develop and implement policies and procedures to review and reconcile balance reports to the general ledger. Review the accuracy of such reports and the parameters used to generate the information.
- Continue to develop and implement corrective actions and devote appropriate level of resources to implement accrual methodologies and remediate deficiencies.

J. Financial Reporting

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

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

The above conditions primarily resulted because management did not:

- Identify, analyze, and respond to risks related to achieving the defined objectives.
- Develop and maintain documentation of internal control systems and communicate such to control owners and relevant external parties.
- Design and implement policies and control activities to use quality information to achieve objectives and respond to risks. Monitor the internal control system, evaluate results, and enforce accountability for individuals performing their internal control responsibilities.
- Complete, document, and monitor corrective actions to remediate internal control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS No. 1: *Accounting for Selected Assets and Liabilities*, SFFAS 3: *Accounting for Inventory and Related Property*, SFFAS 5: *Accounting for Liabilities of the Federal Government*, SFFAS 6: *Accounting for Property, Plant and Equipment*, SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, SFFAS 29: *Heritage Assets and Stewardship Land, and SFFAS 49: Public-Private Partnerships: Disclosure Requirements*.

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

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

Recommendations:

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

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

K. Intra-governmental Transactions and Intra-entity Eliminations

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

- Management did not record trading partner information at the transaction level to facilitate reconciling and eliminating intra-governmental transactions. In addition, management did not establish appropriate levels of review to effectively reconcile balances with their trading partners, and support adjustments made to reconcile with trading partners.
- Management did not accurately identify, support, or reconcile intra-entity activity in all source accounting systems prior to elimination. In addition, management did not accurately record Federal attributes when making adjustments in their financial reporting system.

The above conditions primarily resulted because management did not:

- Identify, analyze, and respond to risks based on their significance.
- Design appropriate control activities for coverage of objectives and risks, including information processing objectives and related application controls.
- Design the entity's information system to obtain and process information to meet information requirements, and evaluate information processing objectives to meet the defined requirements.
- Obtain relevant data from reliable internal and external sources and process the data into quality information.
- Complete, document, and monitor corrective actions to remediate internal control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-136
- TFM
- DoD policies and regulations

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

Recommendations:

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

- Complete a risk assessment process and design, implement, and document policies and controls over the intra-entity transactions and trading partner reconciliations and adjustments. Such policies should include requirements to reconcile, research, and resolve errors and abnormal balances and maintain supporting documentation.
- Implement system updates to ensure relevant key data elements interface completely and accurately from the general ledger systems to the reporting system.
- Establish and complete corrective action plans to remediate identified internal control deficiencies.

L. Fund Balance with Treasury

Management and its service provider did not fully design, implement, and document internal controls over Fund Balance with Treasury (FBwT) as follows:

- Management did not reconcile FBwT variances between Army's system of record and Treasury's records in accordance with policy. Management did not analyze the risk of financial misstatements from variances and document the specific controls that address those risks, which includes controls over the reliability of relevant data used in the reconciliation, the timing of control performance, including to support year-end financial reporting objectives, and the identification and resolution of variances.
- Management did not fully reconcile undistributed disbursement and collection adjustments to the voucher-level transactional details and resolve variances timely and accurately as required by policy or perform and document risk assessment over material undistributed transactions at year-end.
- Management did not demonstrate disbursement and collection transactions were accurately recorded.

The above conditions primarily resulted because management did not:

- Identify all risks and design overall risk responses based on the significance of and tolerance for risk. Management did not always assess information requirements needed to achieve Army's objectives and address the risks. Further, management did not always process obtained data into quality information or anticipate and plan for significant changes that occurred during the year.
- Communicate quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system.
- Complete, document, and monitor corrective actions to remediate internal control deficiencies on a timely basis.

The criteria are as follows:

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

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

Recommendations:

We recommend management work with their service provider, as appropriate, to perform risk assessment procedures, design, and implement controls to:

- Reconcile Fund Balance with Treasury in Army's system of record with Treasury's records in accordance with Department of Defense (DoD) and Treasury policy. To the extent that Army and DFAS are unable to obtain transactional detail for prior year transactions, we recommend that Army identify and analyze the associated risks to estimate their significance to the financial statements and design and implement controls responsive to these risks.

- Fully reconcile and accurately correct undistributed adjustment variances in accordance with DoD policy and perform and document risk assessment procedures over material undistributed transactions at year-end.
- Record disbursement and collection transactions to the proper accounts based on the underlying business events.

M. Completeness

Management did not sufficiently design and implement controls to consistently validate financial transactions are completely and accurately reported in the financial statements. Specifically, management did not completely design and implement controls to:

- Validate the completeness, existence, and accuracy of year-end balances for property, plant and equipment, environmental and disposal liabilities, procurement, and revenue activities. Further, management did not consistently perform control activities timely such that they could record necessary adjustments for year-end reporting.
- Ensure control operators consistently performed and documented required reviews timely and with sufficient precision to identify and resolve exceptions and clear error reports.
- Validate that financial information is transferred completely and accurately between initiating systems, accounting systems, general ledger systems, and reporting systems and record financial adjustments such that all transactions are complete, accurate, and recorded in the correct accounting period timely for period-end financial reporting. If adjustments are not recorded, perform an assessment to determine appropriate review thresholds and evidence that unreconciled items are immaterial.

The above conditions primarily resulted because management did not:

- Effectively define specific and measurable objectives such that management could identify, analyze, and respond to risks.
- Oversee the design, implementation, and operation of the entity's internal controls.
- Develop and maintain documentation of its internal control system and communicate specific documented expectations for control execution to responsible personnel.
- Recruit, develop, and retain competent personnel to achieve the entity's objectives and hold individuals accountable for their internal control responsibilities.
- Design control activities and information systems to achieve objectives using quality information and implement such controls through policies.
- Communicate quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system or assign the internal control responsibilities for key roles.
- Establish and operate monitoring the internal control system and evaluate the results, to include remediating identified internal control deficiencies on a timely basis.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*
- DoD FMR
- Army and DFAS policies, regulations, and other guidance

Without adequate controls over the entry of information at the point of initiation, the flow of information between feeder systems to the general ledger systems to the reporting systems increases the risk that the information presented in the financial statements is potentially incomplete, does not exist, or is not recorded accurately.

Recommendations:

We recommend management perform the following:

- Perform and document risk assessment procedures and evaluate the design of existing control policies and procedures in response to risks identified.
- Implement policies, procedures, and controls to obtain accurate information in a timely manner for all relevant entitlement and feeder systems.
- Continue to design and implement policies, procedures, and controls to completely and accurately record transactions in the correct period and reconcile differences between systems. Such policies should include requirements to maintain supporting documentation, maintain evidence of the control completion, demonstrate the completeness and accuracy of reports, and require timely completion of control activities at year-end.
- Identify the objective for each reconciliation to include the systems included in the control, criteria and level of precision for investigating variances, the requirements to timely research and resolve variances, and the documentation required to support the controls.
- Enforce existing policies and verify control operators are performing the controls in accordance with requirements. Provide resources to control operators to reinforce the importance of reviews.
- Continue to implement corrective actions, including implementation of integrated systems, and validate that new processes and functionality address existing deficiencies.

N. Entity Level Controls

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

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

- Establish an oversight body to oversee the design, implementation, and operation of Army's internal control system.
- Consistently develop policies to establish and implement controls across its control environment and did not develop and maintain sufficient documentation of the control system.
- Consistently recruit, develop, and retain competent personnel to achieve the entity's financial reporting objectives, and provide evidence that management evaluated employee performance, and hold individuals accountable for their control responsibilities.
- Provide evidence to demonstrate the design, implementation, and monitoring of controls over ethics trainings and briefings.
- Effectively design and implement monitoring controls over financial management certification and employee appraisal requirements

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

- Define measurable risk tolerance for each objective in the risk profile for reporting organizations, or define risk objectives and tolerances for certain financial process areas.
- Complete its risk assessment process to identify, analyze, and address all risks for the financial statements, note disclosures, and profile components required by OMB Circular No. A-123.
- Analyze and respond to identified changes and related risks to maintain an effective internal control system.

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

- Fully design and implement controls over the quality and reliability of financial data and supporting documentation.
- Effectively obtain and communicate quality information down and across internal and external reporting lines.

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

- Effectively monitor and evaluate entity level, manual, general information technology, and system application controls for key financial statement line items and risks.
- Evaluate service organizations controls as a part of the OMB Circular No. A-123 Internal Control Assessment and fully define service organization responsibilities.

- Identify and evaluate all relevant service provider controls and Army controls to address the complimentary user entity controls noted by the service organizations. In addition, management did not implement controls to address control deficiencies at service organizations, or perform assessments for service organizations that did not have an examination.
- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

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

The criteria are as follows:

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

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

Recommendations:

We recommend management perform the following:

- Establish oversight of the design, implementation, and operation of Army's internal control system.
- Continue to develop and implement control procedures across its control environment, including maintenance of documentation readily available to support the control system.
- Continue corrective action efforts to complete the control catalog to include entity level controls, and design and implement a comprehensive enterprise-wide testing program.
- Recruit, develop, and retain competent personnel to achieve financial reporting objectives, complete and document performance evaluations in a readily accessible form, and hold individuals accountable for their control responsibilities.
- Implement uniform tracking and monitoring processes for ethical values and standards of conduct, ethics training and briefings, financial management certifications, and employee appraisals, and maintain documentation of such so that it is readily available for inspection.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas.
- Consider risks associated with prior year findings, the financial statements, note disclosures, changes to processes, as well as profile components required by OMB Circular No. A-123, and analyze and respond to such risks.
- Develop, document, and implement controls over the quality and reliability of financial data and supporting documentation.

- Communicate policies, procedures, controls, and quality information down and across internal and external reporting lines.
- Continue efforts to develop and complete the control evaluation program covering the entity level, manual, general information technology, and system application controls for key financial statement line items and risks.
- Evaluate service organization controls as a part of the OMB Circular No. A-123 Internal Control Assessment and define service organization responsibilities.
- Obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports, and implement controls to address control deficiencies at service organizations.
- Continue efforts to develop and implement corrective action plans related to control deficiencies.
- Assign resources to timely implement corrective actions.

A. Federal Managers' Financial Integrity Act (FMFIA)

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

- Management did not develop and implement effective controls related to the use of quality data and did not timely implement a data quality plan.
- Management did not effectively design its internal control assessment to address all risk profile components required by OMB Circular No. A-123 in its risk assessment template.
- Management did not effectively execute its internal control assessments as management did not consistently document the internal control evaluation plans, financial statement risks, financial assertions, testing procedures, testing results, and evidence of management review.
- Management did not perform internal controls testing at all reporting organizations, test all relevant controls, and consistently develop and maintain corrective action plans.

The above conditions primarily resulted because management did not assign sufficient resources to its internal control testing program, assign responsibility at the appropriate levels of the organization, and monitor the internal assessment program. Additionally, management did not perform sufficient risk assessment and prioritize implementation of all FMFIA and OMB Circular No. A-123 requirements when designing their internal control assessment.

The criteria are as follows:

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

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

Recommendations:

We recommend management perform the following:

- Develop and implement controls over the use of data quality and timely implement a data quality plan.
- Update internal control assessment guidance and risk assessment template to include all risk profile components required by OMB Circular No. A-123.
- Assign knowledgeable and sufficient resources to the internal control assessment program, assign responsibilities to such resources, monitor the execution of the internal control assessment program, and hold individuals accountable for their assigned responsibilities.

- Expand and communicate policies on documenting internal control evaluation plans, financial statement risks, financial assertions, testing procedures, testing results, corrective action plans, and evidence of management review.
- Perform and document the internal control assessment for all reporting organizations to include all relevant entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.

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

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

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

The Army GF did not substantially meet FFMIA requirements because of the reasons discussed in Exhibit I – Material Weaknesses and did not fully perform a risk assessment and design controls in response to the risks. In addition, management did not monitor internal controls and timely implement corrective actions. Additionally, management has not completed all necessary corrective action to demonstrate that the financial management systems posting logic is consistent with the USSGL.

The criteria are as follows:

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

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

Recommendations:

We recommend management perform the following:

- Complete risk assessment and implement the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial management system, federal accounting standard, and USSGL requirements.
- Address the federal accounting standards and USSGL requirements in management's guidance and action plans.

- Configure financial management systems and processes to comply with the USSGL requirements and design and document controls to demonstrate that management analyzed all financial processes to determine transactions are recorded consistently with USSGL requirements.

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

SAFM-FOI

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2022 Army General Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the audit report. We concur with the findings described in the report and will continue to implement corrective actions to remediate the material weaknesses and instances of non-compliance identified.

2. The results of continued audit readiness efforts, including corrective actions developed and implemented from findings issued during previous audits, demonstrate Army's commitment toward resolving longstanding financial reporting material weaknesses. We have prioritized and focused our remediation efforts on the following areas for FY 2023:
   - Secretary of Defense Audit Priorities
     - Fund Balance with Treasury
     - User Access Controls
     - Universe of Transactions and Financial Reporting Internal Controls
   - Army Audit Priorities
     - Expanded RMIC Program
     - Go-Forward for Major End Items
     - Financial Management Organizational Assessment

   We are committed to resolving our material weaknesses, improving all aspects of operations and financial management.

3. The Army will continue to collaborate internally and externally with all stakeholders to implement the systems, processes, and internal controls necessary to achieve accurate financial statements prepared in accordance with generally accepted accounting principles. This will not only result in an unmodified audit opinion but, more importantly, will improve the quality and timeliness of the data used to efficiently and effectively manage the resources provided to us by the Congress and the American taxpayer.

RAMSEY.MICHAEL.ALLEN.[redacted]
Digitally signed by RAMSEY.MICHAEL.ALLEN.[redacted]
Date: 2022.11.05 23:20:30 -04'00'

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

Department of Defense – Army General Fund

Consolidated Balance Sheets (Unaudited)

As of September 30, 2022 and 2021

(Amounts in Thousands)		2022 Consolidated		2021 Consolidated
Assets (Note 2)				
Intragovernmental:				
Fund balance with Treasury (Note 3)	$	120,949,891	$	116,398,121
Investments (Note 5)		3,445		2,498
Accounts receivable (Note 6)		2,254,773		5,937,439
Advances and Prepayments (Note 10)		85,724		198,432
Total intragovernmental		123,293,833		122,536,490
Cash and other monetary assets (Note 4)		676,252		520,559
Accounts receivable, net (Note 6)		4,662,560		1,196,809
Inventory and related property, net (Note 8)		44,250,350		39,749,351
General property, plant and equipment, net (Note 9)		136,478,842		143,615,684
Advances and Prepayments (Note 10)		2,141,788		1,249,655
Total other than intragovernmental		188,209,792		186,332,058
Total assets	$	311,503,625	$	308,868,548
Stewardship property, plant & equipment (Note 9)				
Liabilities (Note 11)				
Intragovernmental:				
Accounts payable	$	2,413,743	$	2,432,945
Advances from Others and Deferred Revenue (Note 15)		82,488		442,321
Other liabilities (Note 13 and 15)		1,182,287		1,161,903
Total intragovernmental		3,678,518		4,037,169
Accounts payable		5,451,388		5,657,695
Federal employee and veteran benefits payable (Note 13)		6,021,629		6,148,908
Environmental and disposal liabilities (Note 14)		35,354,465		28,178,238
Advances from Others and Deferred Revenue (Note 15)		536,685		88,348
Other liabilities (Note 15, 16 and 17)		6,002,912		6,630,074
Total other than intragovernmental		53,367,079		46,703,263
Total liabilities	$	57,045,597	$	50,740,432
Commitments and contingencies (Note 17)				
Net Position				
Unexpended appropriations – other funds	$	112,850,910	$	106,033,937
Cumulative results of operations – dedicated collections (Note 18)		122,372		97,354
Cumulative results of operations – other funds		141,484,746		151,996,825
Total net position		254,458,028		258,128,116
Total liabilities and net position	$	311,503,625	$	308,868,548

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

Department of Defense – Army General Fund

Consolidated Statements of Net Cost (Unaudited)

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)		2022 Consolidated		2021 Consolidated
Program Costs (Note 19)				
Gross costs	$	232,020,049	$	211,782,561
Military personnel		68,546,042		68,068,899
Operations, readiness & support		72,489,162		67,684,419
Procurement		23,375,118		28,511,107
Research, development, test & evaluation		58,484,237		38,934,007
Family housing & military construction		9,125,490		8,584,129
(Less: earned revenue)	$	(53,377,677)	$	(32,902,730)
Net cost before losses/(gains) from actuarial assumption changes for military retirement benefits (Note 19)		178,642,372		178,879,831
Net program costs including assumption changes		178,642,372		178,879,831
Net Cost of Operations	$	178,642,372	$	178,879,831

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

Department of Defense – Army General Fund

Consolidated Statements of Changes In Net Position (Unaudited)

For the Year Ended September 30, 2022

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

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

Department of Defense – Army General Fund

Consolidated Statements of Changes In Net Position (Unaudited)

For the Year Ended September 30, 2021

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations:			
Beginning Balance	$ -	$ 115,108,008	$ 115,108,008
Appropriations received	-	175,682,092	175,682,092
Appropriations transferred-in/out	-	(1,250,125)	(1,250,125)
Other adjustments	-	(6,268,698)	(6,268,698)
Appropriations used	-	(177,237,341)	(177,237,341)
Net Change in Unexpended Appropriations	-	(9,074,072)	(9,074,072)
Total unexpended appropriations	-	106,033,937	106,033,937
Cumulative Results of Operations			
Beginning Balance	73,969	154,733,093	154,807,062
Other adjustments	-	(79,882)	(79,882)
Appropriations used	-	177,237,341	177,237,341
Non-exchange revenue (Note 20)	6	2,774	2,780
Donations and forfeitures of cash and cash equivalents	28,253	4,028	32,281
Transfers-in/out without reimbursement	-	2,152,908	2,152,908
Donations and forfeitures of property	-	-	-
Imputed financing	-	1,038,574	1,038,574
Other	(6,641)	(4,210,413)	(4,217,054)
Net Cost of Operations	(1,767)	178,881,598	178,879,831
Net Change	23,385	(2,736,268)	(2,712,883)
Cumulative Results of Operations	97,354	151,996,825	152,094,179
Net Position	$ 97,354	$ 258,030,762	$ 258,128,116

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

Department of Defense – Army General Fund

Combined Statements of Budgetary Resources (Unaudited)

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)	2022 Combined	2021 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 44,961,538	$ 43,678,162
Appropriations (discretionary and mandatory)	182,669,131	172,844,699
Spending authority from offsetting collections (discretionary and mandatory)	55,455,451	61,635,161
Total budgetary resources	$ 283,086,120	$ 278,158,022
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 244,866,166	$ 247,871,430
Unobligated balance, end of year:		
Apportioned, unexpired accounts	29,382,600	22,941,832
Exempt from apportionment, unexpired accounts	62,873	61,114
Unapportioned, unexpired accounts	35,632	35,831
Unexpired unobligated balance, end of year	29,481,105	23,038,777
Expired unobligated balance, end of year	8,738,849	7,247,815
Unobligated balance, end of year (total)	38,219,954	30,286,592
Total budgetary resources	$ 283,086,120	$ 278,158,022
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	173,660,276	181,245,393
Distributed offsetting receipts (-)	(38,141)	(366,475)
Agency outlays, net (discretionary and mandatory)	$ 173,622,135	$ 180,878,918

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

NOTES TO THE FINANCIAL STATEMENTS – GENERAL FUND

NOTE 1. Significant Accounting Policies

1.A. Description and Mission of Reporting Entity

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

This mission has been unchanged for the 247-year life of the Army, but the environment and nature of conflict have undergone many changes over that time, especially with overseas contingency operations. These contingency operations have required that the Army simultaneously transform the way that it fights, trains, and equips its Soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the Nation's domestic and international security obligations today and into the future.

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

1.B. Basis of Presentation and Accounting

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

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

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.

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

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

1.C. Fund Types

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

Trust Funds and Special Funds: Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as funds from dedicated collections.

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

1.D. Revenues and Other Financing Sources

When authorized by legislation, the Army GF appropriations are supplemented by revenues generated by sales of goods or services. The Army GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and to the public.

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

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Army GF records accrued interest from U.S. Treasury securities and user fees transferred from custodial activities in trust and special funds as non-exchange revenue. Exchange revenues arise when the Army GF provides goods and services to the public or to another Government entity for a price.

1.E. Use of Estimates

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

1.F. Accounting for Intragovernmental Activities

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

In certain instances, goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the Army GF. Imputed financing represents the cost paid on behalf of the Army GF by another federal entity. Consistent with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, certain costs of the providing entity that are not fully reimbursed by the Army GF are recognized as imputed costs in the Statements of Net Cost and are offset by imputed financing in the Statements of Changes in Net Position. The Army GF recognizes imputed costs for: (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under the *Federal Employees' Compensation Act*; and (3) losses in litigation proceedings. Consistent with the implementation of SFFAS No. 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

1.G. Transactions with Foreign Governments and International Organizations

The Army is responsible for implementing individual Foreign Military Sales cases and the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations as approved by the U.S. Department of State under the provisions of the *Arms Export Control Act of 1976*. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

1.H. Entity and Nonentity Assets

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

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

1.I. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) represents the aggregate amount of Army GF's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The disbursing offices of the Defense Finance and Accounting Service (DFAS), Military Departments, and U.S. Army Corps of Engineers (USACE) and the financial service centers of the U.S. Department of State process the majority of the worldwide cash collections, disbursements, and adjustments of the Army GF. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBWT account. On a monthly basis, the Army GF FBWT reconciled to the U.S. Treasury accounts.

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

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army GF including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and non-purchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

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

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

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

1.K. Investments and Related Interest

The Army GF reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method. The intent of the Army GF is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

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

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

1.L. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. 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 by aging category during the previous three years. The Army GF regards its intragovernmental accounts receivable balance as substantially collectible, as there is no history of material uncollectible balances. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Transactions (IGT) Guide, Appendix 5, *Overall Intra-Governmental Transactions Processes/ General Information*.

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

1.M. Inventory and Related Property

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

The OM&S are valued at standard purchase price, based upon catalog price. Ammunition not held for sale, spare parts, and repair parts, all centrally managed and stored, are reported on the Balance Sheets as Inventory and Related Property. The Army GF currently recognizes expense of items at purchase using the purchase method.

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

1.N. General Property, Plant and Equipment

The Army GF uses the standard purchase price, based upon catalog price, for valuing equipment. In 2018, the Army GF adopted SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*, for land balances, which permitted the disclosure of land acreage information and removal of the land dollar value in opening balances. The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

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

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

When it is in the best interest of the government, the Army GF provides government property to contractors to complete contract work. The Army GF either owns or leases such property. The Army GF is required to maintain, in its property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards.

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

1.O. Stewardship Property, Plant, and Equipment

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

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

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

1.P. Advances and Prepayments

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

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

1.Q. Leases

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

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

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

1.R. Other Assets

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

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

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

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

1.S. Contingent and Other Liabilities

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

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

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

1.T. Environmental and Disposal Liabilities

Environmental and disposal liabilities (E&DL) are estimated for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, recognition of an anticipated environmental disposal liability begins when the asset is placed into service.

Interpretation of Federal Financial Accounting Standards No. 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6 (Interpretation No. 9)*, requires component entities that report general PP&E should also recognize the associated environmental and disposal liability cleanup costs. For additional information, see Note 14, *Environmental and Disposal Liabilities*.

1.U. Accrued Leave

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

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Funds from Dedicated Collections

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

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

1.X. Fiduciary Activities

The Army GF fiduciary activities are, as indicated in SFFAS No. 31, *Accounting for Fiduciary Activities*, related to the collection or receipt and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which nonfederal individuals or entities have an ownership. The Army GF distinguishes the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized within the accompanying financial statements.

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

1.Y. Federal Employee and Veteran Benefits

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

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

1.Z. Allocation Transfers

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

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

1.AA. Restatements

Not applicable

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

The format of the Balance Sheet has changed to reflect more detail for certain line items for all significant reporting entities as required by the OMB Circular A-136, *Financial Reporting Requirements*. 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 2021 Balance Sheet and the related footnotes was modified to be consistent with the FY 2022 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 Treasury Financial Manual (TFM), USSGL Bulletins, Section V. The footnotes affected by the reclassification include Note 10, *Other Assets*; Note 11, *Liabilities Not Covered by Budgetary Resources*; and Note 15, *Other Liabilities*.

Note 2. Nonentity Assets

As of September 30 *(Amounts in thousands)*	2022	2021
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 986,055	$ 882,372
B. Total Intragovernmental Assets	$ 986,055	$ 882,372
2. Other than Intragovernmental Assets		
A. Cash and Other Monetary Assets	$ 676,252	$ 520,559
B. Accounts Receivable	14,295	6,916
C. Total Non-Federal Assets	$ 690,547	$ 527,475
3. Total Non-Entity Assets	$ 1,676,602	$ 1,409,847
4. Total Entity Assets	$ 309,827,023	$ 307,458,701
5. Total Assets	$ 311,503,625	$ 308,868,548

Nonentity Assets

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

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

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

See Note 1.H for additional information.

Note 3. Fund Balance with Treasury

As of September 30		2022		2021
(Amounts in thousands)				
1. Unobligated Balance:				
A. Available	$	29,445,473	$	23,002,946
B. Unavailable		8,775,787		7,284,929
C. Total Unobligated Balance	$	38,221,260	$	30,287,875
2. Obligated Balance not yet Disbursed	$	131,114,022	$	143,277,676
3. Non-Budgetary FBWT:				
A. Deposit funds		974,507		871,429
B. Non-entity and other		(13,100)		205,185
C. Total Non-Budgetary FBWT	$	961,407	$	1,076,614
4. Non-FBWT Budgetary Accounts:				
A. Investments - Treasury Securities	$	(3,424)	$	(2,497)
B. Unfilled Customer Orders without Advance		(43,718,480)		(52,196,290)
C. Receivables and Other		(5,624,894)		(6,045,257)
D. Total Non-FBWT Budgetary Accounts	$	(49,346,798)	$	(58,244,044)
5. Total FBWT	$	120,949,891	$	116,398,121

Status of Fund Balance with Treasury

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

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

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

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

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

The FBWT reported in the Army GF financial statements has been reconciled to the Army GF's balance as reported by Treasury. The differences between FBWT in the Army GF's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the Army GF's general ledger as a result of timing differences or the inability to obtain complete accounting information prior to the issuance of the financial statements.

In FY 2022, the Army transferred approximately $3.7 billion in unused funds to the Department of Treasury, Miscellaneous Receipts account from General Fund Treasury Account Symbols that cancelled on September 30, 2022.

Note 4. Cash and Other Monetary Assets

As of September 30	2022	2021
(Amounts in thousands)		
1. Cash	$ 242,966	$ 203,455
2. Foreign Currency	433,286	317,104
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 676,252	$ 520,559

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

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

Note 5. Investments and Related Interest

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

As of September 30	2021			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
i. Gift Funds	$ 2,496	$ 2	$ 2,498	$ 2,498
B. Accrued Interest	-	-	-	-
C. Total Intragovernmental Securities	$ 2,496	$ 2	$ 2,498	$ 2,498

Information Related to Investments and Related Interest

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

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

Note 6. Accounts Receivable, Net

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

As of September 30	2021		
(Amounts in thousands)	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 5,938,991	$ (1,552)	$ 5,937,439
2. Other than Intragovernmental	$ 1,278,373	$ (81,564)	$ 1,196,809
3. Total Accounts Receivable	$ 7,217,364	$ (83,116)	$ 7,134,248

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

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

Note 7. Loans Receivable, Net and Loan Guarantee Liabilities

Not Applicable

Note 8. Inventory and Related Property, Net

As of September 30	2022	2021
(Amounts in thousands)		
1. Operating Materiel & Supplies, Net	$ 44,250,350	$ 39,749,351
2. Total	$ 44,250,350	$ 39,749,351

Operating Materiel and Supplies, Net

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

*NRV = Net Realizable Value

As of September 30	2021	
(Amounts in thousands)	OM&S, Net	Valuation Method
1. OM&S Categories		
A. Held for Use	$ 33,723,508	Standard Price
B. Held in Reserve for Future Use	3,044,995	Standard Price
C. Held for Repair	2,980,848	Standard Price
D. Excess, Obsolete, and Unserviceable	-	NRV
E. Total OM&S	$ 39,749,351	

*NRV = Net Realizable Value

OM&S is categorized as either Held for Use; Held in Reserve for Future Use; Held for Repair; or Excess, Obsolete, and Unserviceable. OM&S includes ammunition not held for sale, spare, and repair parts. There are no restrictions on OM&S. The Army GF reports OM&S in accordance with SFFAS 3.

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

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

For OM&S EOU items, Army has determined their estimated NRV to be $0. Army confirms this assessment on an annual basis. Below is a table that depicts comparative period Army OM&S EOU balances at their latest recorded values, before any NRV considerations used by Army for reporting EOU within its financial statements (shown in above table). The items classified as OM&S EOU are the result of accumulation over many fiscal year periods.

Total Latest Recorded Value of OM&S EOU items before NRV considerations	
As of September 30, 2022	$17.2B
As of September 30, 2021	$18.2B

Note 9. General Property, Plant and Equipment, Net

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

As of September 30	2021			
(Amounts in thousands)	Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes				
A. Land (see narrative)				
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 109,040,303	$ (51,224,573)	$ 57,815,730
C. Leasehold Improvements	Lease term	-	-	-
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Note**	187,347,547	(111,151,074)	76,196,473
F. Construction-in- Progress	N/A	9,308,000	N/A	9,308,000
G. Other	N/A	-	-	-
H. Total General PP&E		$ 306,197,568	$ (162,581,884)	$ 143,615,684

* Depreciation method (where applicable) = Straight Line
** Note: Useful lives range from 2 to 50 years

General PP&E, Net – Summary of Activity

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

As of September 30	2021
(Amounts in thousands)	
General PP&E, net, beginning of year	$ 148,280,032
Acquisitions	16,017,422
Depreciation	(18,374,131)
Disposals/Transfers/Revaluations	(2,307,639)
General PP&E, net, end of year	$ 143,615,684

General PP&E

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

Included in the FY 2022 PP&E balances is a $4 billion transfer of Southwest Border wall construction-in-progress to the Department of Homeland Security – Customs and Border Patrol.

As of September 30, 2022, the Army GF owned 11,036,148 acres of land and 8,389,493 leased acres for a total of 19,425,641 acres in land rights. As of September 30, 2021, the Army GF reported 11,548,032 acres of land and leased 8,402,411 acres for a total of 19,950,443 acres in land rights. The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2022 Army GF Annual Financial Report.

Heritage Assets and Stewardship Land Information

The Army GF is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2022 due to limitations of the Army GF's financial and nonfinancial management processes and systems.

Relevance to Army Mission

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

Stewardship Policy

SFFAS No. 29, *Heritage Assets and Stewardship Land*, issued by the Federal Accounting Standards Advisory Board (FASAB), requires note disclosures for these types of assets. The Army GF's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Heritage Asset Categories

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

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

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

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

Heritage Asset Category	As of Oct 1, 2020	Increase	Decrease	As of Sept 30, 2021
Buildings and Structures	19,097	9,646	-	28,743
Archaeological Sites	10,815	-	(15)	10,800
Museum Collection Items	584,469	-	(5,048)	579,421

During FY 2022, the Army prioritized data cleansing and analysis on Heritage Assets and Museum Collections. Due to these efforts, the beginning balances for FY 2022 displayed in the tables above do not reconcile to the ending balances included in the FY 2021 AFR. Future AFRs should reconcile and will be supported by detailed data.

Acquisition and Withdrawal of Heritage Assets

Buildings and structures become eligible for listing in the National Register when they become 50 years old. They are determined eligible for listing on the National Register of Historic Places in conjunction with the State Historic Preservation Officer, or through an official Determination of Eligibility from the Keeper of the National Register, against the eligibility criteria in the National Historic Preservation Act. The increase of 292 buildings is due to Army infrastructure aging into eligibility for the National Register. The decrease of 367 buildings is due to disposal of Army infrastructure that previously aged into eligibility for the National register.

Archaeological sites are determined eligible for listing on the National Register of Historic Places in conjunction with the State Historic Preservation Officer, or through an official Determination of Eligibility from the Keeper of the National Register, against the eligibility criteria in NHPA. The increase of 169 National Register-eligible archaeological sites is due to additional surveys that identified eligible archaeological sites and previously recorded sites that have been newly determined eligible or listed in the current FY and for which a determination of eligibility has been made.

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

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

Deferred Maintenance and Repair

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

Note 10. Other Assets

As of September 30	2022	2021
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 85,724	$ 198,432
B. Total Intragovernmental Other Assets	$ 85,724	$ 198,432
2. Other than Intragovernmental - Other Assets		
A. Outstanding Contract Financing Payments	$ 9,691	$ 92,758
B. Advances and Prepayments	2,132,097	1,156,897
C. Subtotal	2,141,788	1,249,655
D. Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(2,141,788)	(1,249,655)
E. Net Other than Intragovernmental	$ -	$ -
3. Total Other Assets	$ 85,724	$ 198,432

Advances and Prepayments

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

Outstanding Contract Financing Payments

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

(i) Advance payments;
(ii) Performance-based payments;
(iii) Commercial advance and interim payments;
(iv) Progress payments based on cost;

(v) Progress payments based on a percentage or stage of completion; and
(vi) Interim payments under a cost reimbursement contract.

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

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2022		2021
(Amounts in thousands)				
1. Intragovernmental Liabilities				
A. Accounts Payable	$	-		-
B. Other		251,177	$	236,226
C. Total Intragovernmental Liabilities	$	251,177	$	236,226
2. Other than Intragovernmental Liabilities				
A. Accounts Payable	$	2,272,808	$	2,077,656
B. Federal Employee and Veteran Benefits Payable		5,574,139		5,731,603
C. Environmental and Disposal Liabilities		34,066,609		27,034,062
D. Other Liabilities		3,006,791		2,709,859
E. Total Non-Federal Liabilities	$	44,920,347	$	37,553,180
3. Total Liabilities Not Covered by Budgetary Resources	$	45,171,524	$	37,789,406
4. Total Liabilities Covered by Budgetary Resources	$	10,856,745	$	11,824,843
5. Total Liabilities Not Requiring Budgetary Resources	$	1,017,328	$	1,126,183
6. Total Army GF Liabilities	$	57,045,597	$	50,740,432

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

Intragovernmental Liabilities, Other, primarily consists of the unfunded *Federal Employees' Compensation Act* (FECA) liability of $172.5 million, liabilities related to the Judgment Fund of $49.3 million, and $29.3 million of other unfunded employment-related liabilities, as of September 30, 2022, and of the unfunded FECA liability of $168.4 million and $35.3 million of other unfunded employment-related liabilities, as of September 30, 2021.

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

Federal employee and veteran benefits payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities are comprised of accrued unpaid annual leave of $4.5 billion and the actuarial FECA benefits liability of $1.1 billion as of September 30, 2022 and accrued unpaid annual leave of $4.6 billion and the actuarial FECA benefits liability of $1.2 billion as of September 30, 2021. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details and disclosures.

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

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

Other than Intragovernmental, Other Liabilities consists primarily of $1.6 billion in conventional munitions disposal, $1.0 billion in contracted Army cadet scholarship liabilities, and $0.4 billion in contingent legal liabilities as of September 30, 2022, and $1.6 billion in conventional munitions disposal, $1.0 billion in contracted Army cadet scholarship liabilities, and $0.1 billion in contingent legal liabilities as of September 30, 2021 (see Note 15, *Other Liabilities*).

Liabilities not requiring budgetary resources in both fiscal years 2022 and 2021 consist of those recorded for deposit funds and suspense accounts.

Note 12. Federal Debt and Interest Payable

Not Applicable

Note 13. Federal Employee and Veteran Benefits Payable

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

As of September 30	2021		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,180,207	$ -	$ 1,180,207
B. Other	4,968,701	(417,305)	4,551,396
C. Total Other Benefits	$ 6,148,908	$ (417,305)	$ 5,731,603
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet):	$ 6,148,908	$ (417,305)	$ 5,731,603
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 633,577	$ (429,846)	$ 203,731
4. Total Federal Employee and Veteran Benefits Payable	$ 6,782,485	$ (847,151)	$ 5,935,334

Other Benefits consist primarily of accrued unfunded leave of $4.9 billion and employer contributions and payroll taxes payable of ($447.5 million), of which only payroll taxes have reportable assets to pay benefits.

Federal Employees' Compensation Act (FECA)

Actuarial Cost Method

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

Assumptions
The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPI-M). The actual rates for these factors for charge back year (CBY) 2021 were also used to adjust the methodology's historical payments to current year constant dollars. The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. COLA and CPI-M provided by the DOL are also applied to the calculation of projected future benefits. The estimated actuarial liability is updated only at the end of each fiscal year.

Interest rate assumptions utilized for discounting were as follows:

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

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

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

CBY	COLA	CPI-M
2022	N/A	N/A
2023	3.37%	3.13%
2024	3.97%	3.62%
2025	4.10%	3.55%
2026	4.16%	3.84%
2027	3.91%	4.20%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2020 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2020 projection to the average pattern for the projections of the most recent three years.

2021 Discount Rates
For wage benefits:
2.231% in Year 1 and years thereafter.
For medical benefits:
2.060% in Year 1 and years thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPI-Ms were applied to the calculation of projected future benefits. The actual rates for these factors for the CBY 2021 were used to adjust the historical payments associated with the methodology to current year constant dollars.

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

CBY	COLA	CPI-M
2021	N/A	N/A
2022	2.11%	2.74%
2023	2.48%	3.15%
2024	2.55%	3.56%
2025	2.62%	3.49%
2026	2.68%	3.79%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2020 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2020 projection to the average pattern for the projections of the most recent three years.

Other Disclosures

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

Note 14. Environmental and Disposal Liabilities

As of September 30	2022	2021
(Amounts in thousands)		
1. Environmental Liabilities		
A. Accrued Environmental Restoration Liabilities		
i. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 3,786,720	$ 3,270,539
ii. Active Installations—Military Munitions Response Program (MMRP)	1,773,121	948,820
iii. Formerly Used Defense Sites—IRP and BD/DR	3,559,451	3,243,651
iv. Formerly Used Defense Sites–MMRP	9,875,904	8,657,217
B. Other Accrued Environmental Liabilities—Non-Base Realignment and Closure (BRAC)		
i. Environmental Corrective Action	4,455,699	902,626
ii. Environmental Closure Requirements	6,908,891	5,987,601
iii. Environmental Response at Operational Ranges	-	-
iv. Asbestos	2,700,573	2,674,478
C. Base Realignment and Closure Installations		
i. Installation Restoration Program	1,038,099	1,091,764
ii. Military Munitions Response Program	869,110	1,002,863
iv. Environmental Corrective Action / Closure Requirements	386,897	398,679
2. Total Environmental Liabilities	$ 35,354,465	$ 28,178,238

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

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

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

The Army GF addresses event-driven liabilities for the Defense Environmental Restoration Program (DERP) requirements at Active Installations, Base Realignment and Closure (BRAC), and Formerly Used Defense Sites (FUDS) as well as environmental restoration, closure-related compliance activities, or corrective action not covered by DERP.

The Army GF also addresses asset-driven liabilities for closure and disposal under Environmental Closure Requirements (1.B.ii) which includes: open burn/open detonation (OB/OD) areas, landfills, Nuclear Regulatory Commission (NRC) license holders (previously low-level radioactive waste), asbestos wrapping on steam pipes, the decommissioning of deactivated nuclear reactors, permit closure for the Fast Burst Reactor, buildings lead- based paint, other environmental issues), underground storage tanks (USTs), aboveground storage tanks (ASTs), RCRA Permitted Facilities, and piping associated with storage tanks. Asbestos for buildings is captured under 1.B.iv. For each category, the E&DL reflects the estimated future work required to address legal and environmental disposal requirements.

Applicable Laws and Regulations

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

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

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

- *Comprehensive Environmental Response, Compensation, and Liability Act* (CERCLA)
- *Superfund Amendments and Reauthorization Act* (SARA)
- *Safe Drinking Water Act* (SDWA)
- *Resource Conservation and Recovery Act* (RCRA)
- *Toxic Substances Control Act* (TSCA)
- *Low-Level Radioactive Waste Act*
- DoDI 4715.08, *Remediation of Environmental Contamination Outside the United States*
- *Asbestos Hazard Emergency Response Act* (AHERA)
- Army Regulation 50-7, *Army Reactor Program*
- 200-1 Environmental Protection and Enhancement
- U.S. Nuclear Regulatory Commission Regulations (NUREG) – (e.g. NUREG 1757 – *Consolidated Decommissioning Guidance* and NUREG CR6477 – *Revised Analyses of Decommissioning Reference Non-Fuel-Cycle Facilities*)
- FASAB published Technical Bulletin (TB) 2006-1 (FASAB TB 2006-1), *Recognition and Measurement of Asbestos-Related Cleanup Costs* and Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities, and Installed Equipment*

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Army GF uses one or more of the following cost estimating approaches: parametric cost estimates using the Remedial Action Cost Engineering Requirements (RACER) software, site- specific cost estimate in a feasibility study (FS) or corrective measures study (CMS), cost estimate from a similar site (e.g., FS or CMS), engineering estimates, historical cost data, or recently awarded contract information where some contract options are awarded but not exercised. For recurring actions, such as sites in a remedial operation or long-term management (LTM) phase, cost estimates will rely on historical cost data to generate the estimate. When, engineering estimates are used to develop cost projections, these estimates must be informed by professional judgements and supported by contracts, invoices, or actual costs on similar completed sites.

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

The Army GF includes unliquidated obligations which represents the total amount of obligated funding associated with environmental liability cleanup not yet expensed as of the end of a given fiscal year.

The General Fund Enterprise Business System (GFEBS) and Planning Resource for Infrastructure Data and Evaluation (PRIDE) are the sources of asset data used to develop the E&DL estimates for Army assets, except OB/OD, NRC licenses, RCRA Permitted Facilities and nuclear reactors. The OB/OD site listing is developed using Army's G-9 Annual Environmental Quality (EQ) Survey. The Director of Army Safety, and the United States Army Nuclear and Countering Weapons of Mass Destruction Agency (USANCA) track the Army's Nuclear Regulatory Commission (NRC) License holders for radioactive materials.

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

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

The building E&DL methodology is based on the September 30, 2015 Assistant Secretary of Defense (Energy, Installation and Environment) memo entitled, *Strategy for Environmental & Disposal Liabilities Audit Readiness*. On July 12, 1989, EPA issued a final rule banning most asbestos-containing products. In 1991, this regulation was overturned by the Fifth Circuit Court of Appeals in New Orleans. As a result of the Court's decision, the 1989 asbestos regulation only bans new uses of asbestos in products that would be initiated for the first time after 1989 and bans the following specific asbestos-containing products: flooring felt, rollboard, and corrugated, commercial, or specialty paper.

OB/OD are environmentally permitted treatment units used to destroy unserviceable, unstable, or unusable munitions and explosives. RCRA Permitted Facilities are permitted to handled and/or store hazardous materials/waste. The Army utilizes RACER modeling software to capture closure requirements and determine the environmental liabilities.

The Army uses RACER modeling software to estimate environmental disposal liabilities for aboveground and underground storage tanks and piping. Cost estimates for storage tank closure were developed considering the size of tank. RACER cost estimates are developed for various categories within the tank inventory. The length of the piping is used to calculate the piping estimate. The costs estimates are adjusted using area cost factors when reporting the tank/piping E&DL. The Army also uses RACER modeling software to estimate the removal and disposal of asbestos wrappings on steam pipelines. The model is contained within the RACER. Cost estimates for piping closure are developed considering asbestos abatement methodology and length of piping.

The Army uses RACER modeling software to estimate environmental closure liabilities for landfills. Permitted landfills closure liabilities are estimated within RACER using federal solid waste closure requirements. The future closure costs for operating landfills considers the type of landfill (e.g., hazardous waste, sanitary/municipal, construction and demolition debris (C&D) hazardous waste or sanitary/municipal), acreage, and location. The reported environmental liability also includes post-closure requirements.

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

The Army also has some highly specialized facilities that require unique closure requirements that do not fit the building E&DL model above. The decommissioning of the Army's deactivated nuclear reactors requires extensive closure requirements in accordance with Army Regulation 50-7. Although these facilities are not under the jurisdiction of the Nuclear Regulatory Commission (NRC), the Army adheres to the substantive requirements of NRC regulations. The estimation process requires a detailed engineering study and financial analysis prepared in advance that will be required to conduct the decommissioning and disposal.

The Army GF does not recognize E&DL for active operational ranges because the liability is not measurable due to the munitions rule. The munitions rule provides that munitions used for their intended purpose are not a solid waste; thus, as the munitions on the operational ranges are not solid waste they cannot, by statute, be a hazardous waste. A liability is not recognized as operational ranges do not meet the probable requirement of Federal Financial Accounting and Auditing Technical Release 2 since the Army GF does not intend to close its current inventory of operational ranges. In the event the decision is made to close a current operational range, the Army GF will perform a full environmental assessment and initiate a strategy and plan for cleanup.

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

Unrecognized cleanup costs are based on the remaining useful life allocated to future periods where the PP&E is in service. These costs still are not included in the current liability reporting. The unrecognized costs amounted to $215 million as of September 30, 2022 compared with $189 million as of September 30, 2021. The recognized amounts are included in the Environmental Closure Requirements (Line 1.B.ii) over the useful life of certain classes of assets.

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

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

Environmental liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advancements in technology. Environmental liabilities may also change due to updated criteria and new ways of determining current categories on the financial statement.

All environmental liabilities as of September 30, 2022 and 2021 are stated in FY 2022 and 2021 dollars, respectively, as required by generally accepted accounting principles for federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

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

The E&DL is an accounting estimate, which requires certain professional judgment and assumptions that are believed to be reasonable based upon information available to the Army GF at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated. The E&DL can be further impacted if the investigation of environmental sites discloses contamination levels different than known at the time of the estimates. The Army GF has reported asbestos survey costs but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, per FASAB TB 2006-1, presents too much uncertainty to estimate. Friable asbestos mitigation estimates are based on historical costs of asbestos abatement during facility demolition.

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

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

Note 15. Other Liabilities

As of September 30	2022		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Disbursing Officer Cash	$ 679,170	$ -	$ 679,170
B. Liabilities for Non-entity Assets	-	12,832	12,832
C. Other Liabilities	49,332	-	49,332
D. Subtotal	728,502	12,832	741,334
E. Other Liabilities Reported on Note 13	346,188	94,765	440,953
F. Total Intragovernmental Other Liabilities	$ 1,074,690	$ 107,597	$ 1,182,287
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 1,818,781	$ -	$ 1,818,781
B. Withholdings Payable	53,202	-	53,202
C. Liability for Non-fiduciary Deposit Funds and Undeposited Collections	1,041,977	-	1,041,977
D. Contract Holdbacks	82,046	-	82,046
E. Contingent Liabilities	86,154	294,561	380,715
F. Other Liabilities Without Related Budgetary Obligations	381,788	2,244,288	2,626,076
G. Other Liabilities With Related Budgetary Obligations	115	-	115
H. Total Other than Intragovernmental Other Liabilities	$ 3,464,063	$ 2,538,849	$ 6,002,912
3. Total Other Liabilities	$ 4,538,753	$ 2,646,446	$ 7,185,199

As of September 30	2021		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Disbursing Officer Cash	$ 520,560	$ -	$ 520,560
B. Liabilities for Non-entity Assets	-	7,766	7,766
C. Subtotal	520,560	7,766	528,326
D. Other Liabilities Reported on Note 13	555,132	78,445	633,577
E. Total Intragovernmental Other Liabilities	$ 1,075,692	$ 86,211	$ 1,161,903
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 2,765,943	$ -	$ 2,765,943
B. Withholdings Payable	83,170	-	83,170
C. Liability for Non-fiduciary Deposit Funds and Undeposited Collections	931,942	-	931,942
D. Contract Holdbacks	139,160	-	139,160
E. Contingent Liabilities	26,425	101,732	128,157
F. Other Liabilities Without Related Budgetary Obligations	295,015	2,286,687	2,581,702
G. Total Other than Intragovernmental Other Liabilities	$ 4,241,655	$ 2,388,419	$ 6,630,074
3. Total Other Liabilities	$ 5,317,347	$ 2,474,630	$ 7,791,977

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

As of September 30	2022	2021
(Amounts in thousands)		
A. Intragovernmental	$ 82,488	$ 442,321
B. Other than Intragovernmental	536,685	88,348
Total Advances from Others and Deferred Revenue	$ 619,173	$ 530,669

Intragovernmental Other Liabilities
Disbursing Officer Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officer Cash is non-entity, restricted cash. Liabilities for non-entity assets represent liabilities for non-entity collections reported as custodial revenues in which the Army GF is acting on behalf of another Federal entity.

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

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

Other than Intragovernmental Other Liabilities
Accrued funded payroll and leave represents the estimated amount of liability for salaries, wages, and funded annual and sick leave that has been earned but are as of yet unpaid.

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

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

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

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

Other Liabilities without related budgetary obligations include, for both fiscal years, the: (1) the Conventional Munitions Non-Environmental Disposal ($1.6B), related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear and which involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item; and (2) the accrued liability for contract Reserve Officers' Training Corps (ROTC) cadet scholarships ($1.0B).

Note 16. Leases

Entity as Lessee

As of September 30	2022 Asset Category		
(Amounts in thousands)	Land and Buildings	Other	Total
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2023	36,519	-	36,519
2024	39,278	-	39,278
2025	42,261	-	42,261
2026	45,500	-	45,500
2027	48,986	-	48,986
After 5 Years	287,939	-	287,939
Total Intragovernmental Future Lease Payments Due	$ 500,483	-	$ 500,483

As of September 30	2022 Asset Category		
(Amounts in thousands)	Land and Buildings	Other	Total
2. Other than Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2022	$ 233,042	$ 896	$ 233,938
2023	187,528	690	188,218
2024	144,589	487	145,076
2025	106,199	101	106,300
2026	71,002	-	71,002
After 5 Years	103,853	-	103,853
Total Future Lease Payments Due	$ 846,213	$ 2,174	$ 848,387
3. Total Future Lease Payments Due	$ 1,346,696	$ 2,174	1,348,870

As of September 30, 2022, the Army GF has 4,601 non-cancelable operating leases of varying maturities from 1 to over 100 years. Many of these leases contain clauses to reflect inflation and renewal options. The Army GF has no assets under capital lease. Army GF operating leases consist mainly of offices, family housing, and buildings.

Entity as Lessor

As of September 30	2022 Asset Category		
(Amounts in thousands)	Land and Buildings	Other	Total
Other than Intragovernmental Operating Leases			
Fiscal Year			
2023	$ 15,063	$ 9	$ 15,072
2024	12,298	9	12,307
2025	11,042	9	11,051
2026	8,514	9	8,523
2027	6,695	9	6,704
After 5 Years	29,782	46	29,828
Total Future Projected Receipts	$ 83,394	$ 91	$ 83,485

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

Note 17. Commitments and Contingencies

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

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

Summary of Legal Contingent Liabilities			
As of September 30, 2021	Estimated Range of Loss		
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 128,157	128,157	$ 284,657
Reasonably Possible	N/A	330,665	$ 1,101,587

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

The Army GF has other contingent liabilities for which the possibility of loss is considered reasonably possible. These liabilities are not accrued in the Army GF's financial statements. As of September 30, 2022, the Army GF had $4.7 billion in claims considered reasonably possible. As of September 30, 2021, the Army GF had $5.8 billion in claims considered reasonably possible.

As of September 30, 2022 and 2021, legal claims existed for which the estimated loss amount or the range of loss could not be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect the Army GF's financial position or results of operation.

Red Hill Underground Bulk Fuel Storage Tank Facility Incident

On August 31, 2022, the DOD issued a Report on Red Hill Response Cost Projections to inform Congress of DoD's known and projected costs to defuel and permanently close the Red Hill Bulk Fuel Storage Facility to comply with the State of Hawaii, Department of Health Emergency Order. Applicable liabilities for Red Hill are probable, but not currently measurable for the Army.

Note 18. Funds from Dedicated Collections

As of September 30	2022	2021
(Amounts in thousands)	Total Funds From Dedicated Collections	Total Funds From Dedicated Collections
Balance Sheets		
1. Assets		
A. Fund balance with Treasury	$ 117,248	$ 107,772
B. Investments	3,445	2,498
C. Accounts and interest receivable	9,504	(430)
D. Other assets	-	-
E. Total assets	$ 130,197	$ 109,840
2. Liabilities and Net Position		
A. Accounts payable and other liabilities	7,825	12,486
B. Total liabilities	$ 7,825	$ 12,486
C. Cumulative results of operations	122,372	97,354
D. Total Liabilities and Net Position	$ 130,197	$ 109,840

For the years ended September 30	2022	2021
(Amounts in thousands)	Total Funds From Dedicated Collections	Total Funds From Dedicated Collections
Statements of Net Cost		
1. Program costs	$ 29,666	$ 12,916
2. Less earned revenue	(21,466)	(14,683)
3. Net program costs	$ 8,200	$ (1,767)
4. Less earned revenues not attributable to programs	-	-
5. Net Cost of Operations	$ 8,200	$ (1,767)
Statements of Changes In Net Position		
1. Net position beginning of the period	$ 97,354	$ 73,969
2. Donations and other non-exchange revenue	53,632	28,259
3. Other financing sources	(20,414)	(6,641)
4. Less: net cost of operations	8,200	(1,767)
5. Change in net position	$ 25,018	$ 23,385
6. Net position end of period	$ 122,372	$ 97,354

In accordance with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Army GF's policy is to display a combined presentation of the non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections with all other funds.

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

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

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

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

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

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

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

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

The U.S. Treasury securities are issued to the Army Gift Fund as evidence of its receipts and are an asset to the Army GF and a liability to the U.S. Treasury. The federal government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash generated from the Army Gift Fund is deposited in the U.S. Treasury, which uses the cash for general government purposes. Since the Army GF and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government wide financial statements.

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

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

Other Information Regarding Costs

The Statements of Net Cost (SNC) represent the net cost of programs and organizations of the Army GF supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity.

Schedule of Cost and Revenue by Strategic Goal

For the year ended September 30		2022		2021
(Amounts in thousands)		Consolidated		Consolidated
Strategic Goals				
1. Readiness				
A. Gross costs	$	141,166,351	$	144,674,797
B. Less: earned revenue		(16,614,025)		(14,728,747)
C. Total net readiness costs	$	124,552,326	$	129,946,050
2. Modernization				
A. Gross costs	$	82,701,990	$	68,290,960
B. Less: earned revenue		(45,735,312)		(27,062,792)
C. Total net modernization costs	$	36,966,678	$	41,228,168
3. Alliance and partnership				
A. Gross costs	$	631,974	$	3,776,023
B. Less: earned revenue		(107,352)		(123,887)
C. Total net alliance and partnership costs	$	524,622	$	3,652,135
4. People and families				
A. Gross costs	$	5,114,583	$	4,894,744
B. Less: earned revenue		(723,320)		(841,267)
C. Total net people and families costs	$	4,391,263	$	4,053,477
Other Goals				
A. Gross costs	$	12,207,484	$	-
B. Less: earned revenue		-		-
C. Total net other costs	$	12,207,484	$	-
Intra-entity elimination costs		(9,802,332)		(9,853,963)
Less: intra-entity earned revenue		9,802,332		9,853,963
Consolidated goals				
A. Gross costs	$	232,020,049	$	211,782,561
B. Less: earned revenue		(53,377,677)		(32,902,730)
C. Total net costs	$	178,642,372	$	178,879,831
(Gain)/loss on pension, ORB, or OPEB assumption changes (Note 15)		-		-
Net strategic goals, including assumption changes		178,642,372		178,879,831
Net cost of operations	$	178,642,372	$	178,879,831

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

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

Cumulative Results of Operations, Other

Cumulative Results of Operations, Other primarily consist of gains and losses that resulted from revaluations, disposals and other adjustments recognized to address differences between the Army GF's nonintegrated feeder systems with DoD's financial reporting system.

Appropriations Received

The FY 2022 Appropriations Received line item on the SCNP should not and will not agree with the Appropriations line item on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The $6.0 billion difference in FY 2022 and $2.8 billion difference in FY 2021 Appropriations (Appropriations, SBR of $182,669 less Appropriations, SCNP of $176,695), is due to additional resources included in the Appropriations line item on the SBR. See schedule below.

For the year ended September 30, 2022 *(Amounts in millions)*		Total
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		
1. Appropriations, Statement of Budgetary Resources	$	182,669
2. Appropriations received, Statement of Changes in Net Position		176,695
3. Total reconciling amount	$	5,974
4. Items reported as reductions to appropriations, Statement of Budgetary Resources		
A. Permanent reductions	$	(1,236)
5. Items reported as reductions, Statement of Budgetary Resources		
A. Transfers		7,165
6. Items not reported as appropriations received on the Statement of Changes in Net Position		
A. Dedicated appropriations and earmarked receipts		45
7. Total reconciling items	$	5,974

Note 21. Disclosures Related to the Statements of Budgetary Resources

Net Adjustments to Unobligated Balances, Brought Forward

Net adjustments to FY 2022 unobligated balance brought forward increased by $14.7 billion over the FY 2021 end of year total primarily due to recoveries of prior year unpaid obligations.

Undelivered Orders at the End of the Period

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

For the years ended September 30		2022		2021
(Amounts in thousands)				
1. Intragovernmental:				
A. Unpaid	$	33,671,896	$	45,565,553
B. Prepaid/advanced		361,625		1,571,311
C. Total intragovernmental	$	34,033,521	$	47,136,864
2. Other than Intragovernmental:				
A. Unpaid	$	88,363,627	$	84,904,258
B. Prepaid/advanced		2,141,788		221,424
C. Total Other than Intragovernmental	$	90,505,415	$	85,125,682
3. Total budgetary resources obligated for undelivered orders at the end of the period	$	124,538,936	$	132,262,546

Permanent Indefinite Appropriations

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

- Department of the Army General Gift Fund (10 U.S.C. §2601(c)(1))
- Forest Program (10 U.S.C. §2665)
- Wildlife Conservation (16 U.S.C. §§670-670f)
- Ainsworth Bequest (31 U.S.C. §1321)
- Rocky Mountain Arsenal, Restoration [United States Statutes at Large, Volume 100, page 4003, section 1367 (100 Stat. 4003 §1367)]

Legal Arrangements Affecting the Use of Unobligated Balances

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

Explanation of Differences between the FY 2021 SBR and the Budget of the U.S. Government

(Amounts in millions)	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Agency Outlays	Explanation for reconciling differences
Combined Statement of Budgetary	$ 278,158	$ 247,871	$ (366)	$ 181,245	Less: schedule P, obligations "upward adjustments," expired accounts (included within SBR line 2190, New obligations and upward adjustments (Note 1)
Reconciling difference	$ 8,709	$ -	$ -	$ -	Less: SF 133 line 2413 - Expired unobligated balance, end of year (Note 2)
Reconciling difference	$ 7,248	$ -	$ -	$ -	Less: distributed offsetting receipts (Note 3)
Reconciling difference	$ -	$ -	$ (366)	$ -	
Reconciling difference (unidentified)	$ 9	$ 13	$ -	$ 3	
Total	$ 262,192	$ 247,858	$ -	$ 181,242	
Budget of the U.S. Government	$ 262,192	$ 247,858		$ 181,242	
Difference	$ -	$ -	$ -	$ -	

The corresponding *Budget of the U.S. Government* with the actual amounts for FY 2022 will be available at a later date on the OMB website.

Note 1: Per the OMB *FY 2023 Appendix to the Budget of the U.S. Government, Detailed Budget Estimates*, upward adjustments of obligations to expired appropriation accounts are subtracted from expired unobligated balances as reported on line 2403, Unobligated Balance, Unapportioned: Other, a component of total budgetary resources as reported on SBR line 2500 (under Status of Budgetary Resources); and consequently, must also be excluded from line 1910 (also total budgetary resources).

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

Note 3: The OMB *FY 2023 Appendix* does not report distributed offsetting receipts for FY 2021 at the Army GF level.

Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable

Note 23. Fiduciary Activities

For the years ended September 30	2022	2021
(Amounts in thousands)		
Schedule of Fiduciary Activity		
1. Fiduciary Net Assets, Beginning of Year	$ (9,435)	$ 4,271
2. Contributions	22,225	35,412
3. Distributions to and on Behalf of Beneficiaries	(31,567)	(49,118)
4. Increase/(decrease) in Fiduciary Net Assets	$ (9,342)	$ (13,706)
5. Fiduciary Net Assets, End of Period	$ (18,777)	$ (9,435)
Schedule of Fiduciary Net Assets		
Fiduciary Assets		
1. Fund Balance with Treasury	$ (18,777)	$ (9,435)
2. Total Fiduciary Net Assets	$ (18,777)	$ (9,435)

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

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

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

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

Note 24. Reconciliation of Net Cost to Net Outlays

For the year ended September 30	2022		
(Amounts in thousands)	Intragovernmental	Other than Intragovernmental	Total
1. Net Cost of Operations (SNC)	$ 4,523,113	$ 174,119,259	$ 178,642,372
Components of net cost that are not part of net outlays:			
2. Property, plant, and equipment depreciation	$	$ (18,107,392)	$ (18,107,392)
3. Property, plant, and equipment disposal & revaluation		2,436,085	2,436,085
4. Increase/(decrease) in assets:			
A. Accounts Receivable	(6,073,837)	3,465,751	(2,608,086)
B. Other assets	(181,455)	1,047,827	866,372
5. (Increase)/decrease in liabilities:			
A. Accounts payable	2,383,852	206,306	2,590,158
B. Environmental and disposal liabilities		(7,176,227)	(7,176,227)
C. Other Liabilities (unfunded leave, unfunded FECA, actuarial FECA)	434,715	281,904	716,619
6. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency		127,279	127,279
B. Other imputed financing (Judgment Fund)	(1,014,653)		(1,014,653)
7. Total components of net cost that are not part of net outlays	$ (4,451,378)	(17,718,467)	(22,169,845)
Components of net outlays that are not part of Net Cost:			
8. Acquisition of capital assets		16,199,095	16,199,095
9. Other	216,752	(35,909)	180,843
10. Total components of net outlays that are not part of net cost	$ 216,752	16,163,186	16,379,938
11. Other temporary timing differences		769,670	769,670
12. Net outlays	$ 288,487	173,333,648	173,622,135
13. Agency outlays, net, Statement of Budgetary Resources			$ 173,622,135

For the year ended September 30	2021		
(Amounts in thousands)	Intragovernmental	Other than Intragovernmental	Total
1. Net Cost of Operations (SNC)	$ 16,177,829	$ 162,702,002	$ 178,879,831
Components of net cost that are not part of net outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (18,374,131)	$ (18,374,131)
3. Property, plant, and equipment disposal & revaluation	-	(488)	(488)
4. Other	(96,284)	14,970	(81,314)
5. Increase/(decrease) in assets:			
A. Accounts Receivable	5,356,385	343,703	5,700,088
B. Investments	2,139	-	2,139
C. Other assets	(33,890)	114,614	80,724
6. (Increase)/decrease in liabilities:			
A. Accounts payable	(327,758)	(791,655)	(1,119,413)
B. Salaries and benefits	(37,027)	(33,901)	(70,928)
C. Environmental and disposal liabilities	-	(942,557)	(942,557)
D. Other Liabilities (unfunded leave, unfunded FECA, actuarial FECA)	(792,307)	(1,635,043)	(2,427,350)
7. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(920,098)	-	(920,098)
B. Other imputed financing (Judgment Fund)	(118,476)	-	(118,476)
8. Total components of net cost that are not part of net outlays	$ 3,032,684	(21,304,488)	(18,271,804)
Components of net outlays that are not part of Net Cost:			
9. Acquisition of capital assets	-	16,017,422	16,017,422
10. Acquisition of inventory	-	4,155,845	4,155,845

For the year ended September 30	2021			
(Amounts in thousands)		Intragovernmental	Other than Intragovernmental	Total
11. Other		189,982	(35,056)	154,926
12. Total components of net outlays that are not part of net cost	$	189,982	20,138,211	20,328,193
13. Other temporary timing differences		-	(57,302)	(57,302)
14. Net outlays	$	19,400,495	161,478,423	180,878,918
15. Agency outlays, net, Statement of Budgetary Resources				$ 180,878,918

The Reconciliation of Net Cost to Net Budgetary Outlays demonstrates the relationship between the Army GF's Net Cost of Operations, reported on an accrual basis, and Net Outlays, reported on a budgetary basis. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Army GF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the Army GF. Outlays are payments to liquidate an obligation.

The FY 2021 reconciliation was modified to conform to the FY 2022 presentation.

Note 25. Public-Private Partnerships

Public-Private Partnerships (P3s) are risk-sharing agreements between public and private sector entities with expected lives greater than five years. P3s can be extremely complex agreements which transfer or share various forms of risk among the P3 partners, some of which involve government assets. Disclosure of P3s foster accountability and improve understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, requires the disclosure of the nature of the Government's relationship with the private entities and helps achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, by making P3s more understandable.

Overview

The Army MHPI agreements are private sector/market driven businesses established as Limited Liability Companies or Limited Partnerships (LLC/LP) single purpose entities. These entities allow the Army to work with the private sector to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in MHPI agreements, the government benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow. The MHPI authority stems from the *National Defense Authorization Act for Fiscal Year 1996, Public Law 104-106* (110, Stat 186, Section 2801). Title 10 U.S.C. §§ 2871-2885 codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. The Private Partner serves as the majority managing member which ensures performance objectives are met over the expected life of the operating agreement. The Army serves as the minority member and enters into a long-term ground lease (generally 50 years), and conveys the associated real property assets (buildings, structures, facilities, and utilities) to the LLC or LP. The contractual terms and termination clauses vary by agreement. The Army is not involved in the day-to-day operations and management of the LLC or LP but is provided approval rights for certain "Major Decisions" detailed in the operating agreements.

Funding and Contributions

The Army provides funding to the LLC or LP through:

- Equity Investments – Provision of cash and transfer of real property ownership (land, housing units, and other structures) to a project and, in return, the DoD receives a portion of that project's profits and losses. In addition, the DoD also receives compensation if the investment is sold.
- Government Loan Guarantees – Agreement to pay a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project only due to the reduction of military personnel below a specific number at the installation as detailed in the guarantee.

Within the Army MHPI program, the lease hold interest of local family housing portfolios at 44 Army installations were transferred to a unique Limited Liability Company (LLC) (35 projects), with joint ownership between Army and the private company. The private entity manages the LLC, as they are the majority owner within each of the LLCs. All of the MHPI agreements were initiated from 1999 to 2009, with the expected life of the agreements being 50 years plus a 25-year extension option. The contractual terms of these agreements as well as the termination clauses are varied between each of the LLC agreements.

The following table represents the aggregated contributions by the Army to the LLCs/LPs through September 30, 2022:

Table 1. Cumulative Contribution ($ in millions)

Army Initial Contributions from the MHPI Program to the LLCs & LPs* *($ in millions)* Cumulative as of September 30, 2022		
Direct cash contributions	$	1,907
Real property contributions to the LLCs & LPs (value of Real Property Assets (RPA) conveyed, per OMB scoring documents)	$	2,279
Bonds	$	-
Direct loans disbursed	$	-
Army On-Going Contributions to the DoD MHPI Program* *($ in millions)* Cumulative as of September 30, 2022		
Direct payments as required by Pub. L. 115-91 § 603 (1% BAH) and 15-232 § 606 (5% BAH)	$	319
Basic allowance for housing (BAH) under § 403 of Title 37 to members living in privatized housing for FY 2020, FY 2021, and FY 2022	$	4,394
Differential Lease Payments	$	-
Property, Cash, Bonds, and Loans	$	4,186
Private Partner Initial Contribution to the MHPI Program *($ in millions)*		
Direct cash contributions	$	167
Real property contributions to the LLCs & LPs	$	-
Bonds	$	9,900
Direct loans disbursed	$	-
Private Partner On-Going Contribution to the MHPI Partnership *($ in millions)* Cumulative as of September 30, 2022		
Direct cash contributions	$	-
Bonds/Loans contributed (Outstanding balance per current amortization schedules)	$	8,701
Real property and land contributions	$	-

*Note 1: The disclosures above are currently presented in the DoD's consolidated financial statements and are not presented within the Military Department's financial statements.

Table 2. Cumulative Acreage of Ground Leases in MHPI Agreements	
Military Department	**Ground Lease in Acres**
ARMY	35,558

The Army will continue to use the Ground Lease Compliance Inspection to audit/update the total acreage in each RCI Company Ground Lease.

Assess other agreements for potential P3 disclosure.
SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, establishes disclosure requirements for "risk-sharing arrangements or transactions lasting more than five years between public and private sector entities." The Army GF has assessed its agreements applying the SFFAS 49 requirements and has not identified any additional Public-Private Partnerships to date.

Note 26. Disclosure Entities and Related Parties

The Army's Nonappropriated Fund Instrumentalities (NAFIs) are fiscal entities supported in whole or in part by nonappropriated funds (NAFs). For the most part, NAFs are generated from sales and user fees. The Army's NAFIs are governed by sections of Title 10. The Army's NAFIs primarily consists of the Army exchanges and morale, welfare, and recreation (MWR) entities. The NAFIs are intended to enhance the quality of life of members of the uniformed services, retired members, and dependents of such members, and to support military readiness, recruitment, and retention.

The Army has an advisory group for its NAFIs. The group ensures the NAFI is responsive to authorized patrons and to the purposes for which the NAFI was created. Additionally, the NAFIs are subject to financial reporting requirements and financial audits conducted by independent public accounting firms. Therefore, while the Army GF does not control NAFIs nor are they considered related parties, Army NAFI financial activity is not included in the Army GF financial statements.

The Rand Army Research Center (the Arroyo Center) is the U.S. Army's sole federally funded research and development center (FFRDC) for studies and analysis. As an FFRDC, the Arroyo Center enables the Army to maintain a strategic relationship with an independent, nonprofit source of high-quality, objective analysis that can sustain deep expertise in domains of direct relevance to perennial Army concerns to meet research or development needs that cannot be met as effectively by existing government or contractor resources. Funding for FFRDC work is provided through the DoD's contract with the parent organization that operates each FFRDC. DoD *Federal Acquisition Regulation* (FAR) Part 35.017 provides federal policy for the establishment and use of FFRDCs. The Army provided approximately $33 million to the Arroyo Center in FY 2022.

DoD FFRDC relationships are entities created to conduct research for the Department of Defense but are administered by colleges, universities, or other non-profit entities and conduct agency-specific research under contract or cooperative agreement. (Analytical Perspectives, *FY 2022 Budget of the U.S. Government*, p. 82).

Congress restricts the amount of support that the DoD may receive through a limitation that it sets annually on the staff years of technical effort that may be funded (Analytical Perspectives, p. 177-9, including Table 14-1, *Federal Research and Development Spending*).

The Army GF receives significant benefits from the work of the Arroyo Center, which is critical to national security. The Army GF's oversight and management of the Arroyo Center are stipulated by Army Regulation 5-21.3. The regulation establishes a governing board of Army leaders known as the Arroyo Center Policy Committee (ACPC), co-chaired by the Vice Chief of Staff of the Army and the Assistant Secretary of the Army (Acquisition, Logistics and Technology). The ACPC provides overall guidance, reviews the annual research plan, and approves individual projects. While the Army GF does not control the Arroyo Center, nor is it considered a related party, the Army GF must agree that it will conduct its business in a manner befitting its special relationship with itself, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. An FFRDC may be used only for work that is within its purpose, mission, and general scope of effort, as established within the sponsoring agreement.

Note 27. Security Assistance Accounts

Not Applicable

Note 28. Restatements

Not Applicable

Note 29. COVID-19 Activity

As of September 30, 2022 the Army GF has been allocated a total $1.3 billion in budgetary resources under the *Coronavirus Aid, Relief, and Economic Security* (CARES) *Act* (P.L. 116-136). Total funding received by the respective appropriations, together with obligations and outlays to date, are as follows:

For the Year Ended September 30	2022		
(Amounts in thousands)	Budgetary Resources	Obligations	Outlays
Military Personnel, Army	89,438	89,438	89,438
Operation and Maintenance (O&M), Army	888,380	886,489	863,973
National Guard Personnel, Army	69,587	65,877	65,133
O&M, National Guard, Army	64,066	61,064	45,198
O&M, Reserve, Army	36,000	35,866	35,408
Research, Test, Development & Evaluation, Army	65,292	64,493	58,445
Other Procurement, Army	61,458	61,008	58,793
Totals	**$1,274,221**	**$1,264,235**	**$1,216,388**

As of September 30, 2022, overall COVID-19 activity has resulted in a net impact of approximately $1.2 billion to the Army GF cumulative results of operations. Unobligated balances as of September 30, 2022 totaled approximately $10 million.

For the Year Ended September 30	2021		
(Amounts in thousands)	Budgetary Resources	Obligations	Outlays
Military Personnel, Army	89,438	89,438	89,438
Operation and Maintenance (O&M), Army	888,380	886,691	856,466
National Guard Personnel, Army	69,587	65,960	65,125
O&M, National Guard, Army	64,564	61,214	34,462
O&M, Reserve, Army	36,000	35,891	34,995
Research, Test, Development & Evaluation, Army	65,292	64,559	57,200
Other Procurement, Army	61,458	60,722	54,065
Totals	**$1,274,719**	**$1,264,475**	**$1,191,751**

Note 30. Subsequent Events

Not Applicable

Department of Defense – Army General Fund

Schedule of Disaggregated Budgetary Resources

For the Years Ended September 30, 2022 and 2021

($ in Thousands)	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction	Operations, Readiness & Support	2022 Combined	2021 Combined
Budgetary Resources:							
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	10,585,427	11,794,480	3,901,478	6,109,646	12,570,507	44,961,538	43,678,162
Appropriations (discretionary and mandatory)	14,620,074	28,905,360	66,968,282	2,663,086	69,512,329	182,669,131	172,844,699
Spending Authority from offsetting collections (discretionary and mandatory)	35,107,371	1,385,692	1,375,091	5,546,626	12,040,671	55,455,451	61,635,161
Total Budgetary Resources	60,312,872	42,085,532	72,244,851	14,319,358	94,123,507	283,086,120	278,158,022
Status of Budgetary Resources:							
New obligations and upward adjustments (total)	52,527,159	27,022,793	71,396,718	7,480,202	86,439,294	244,866,166	247,871,430
Unobligated balance, end of year:							
Apportioned, unexpired accounts	7,333,874	13,923,715	131,803	6,728,213	1,264,995	29,382,600	22,941,832
Exempt from apportionment, unexpired accounts	-	-	-	-	62,873	62,873	61,114
Unapportioned, unexpired accounts	16,016	-	2	-	19,614	35,632	35,831
Unexpired unobligated balance, end of year	7,349,890	13,923,715	131,805	6,728,213	1,347,482	29,481,105	23,038,777
Expired unobligated balance, end of year	435,823	1,139,024	716,328	110,943	6,336,731	8,738,849	7,247,815
Unobligated balance, end of year (total)	7,785,713	15,062,739	848,133	6,839,156	7,684,213	38,219,954	30,286,592
Total Budgetary Resources	60,312,872	42,085,532	72,244,851	14,319,358	94,123,507	283,086,120	278,158,022
Outlays, Net:							
Outlays, net (total) (discretionary and mandatory)	14,230,605	23,216,791	67,782,816	1,638,497	66,791,567	173,660,276	181,245,393
Distributed offsetting receipts (-)	-	-	-	-	(38,141)	(38,141)	(366,475)
Agency Outlays, net (discretionary and mandatory)	14,230,605	23,216,791	67,782,816	1,638,497	66,753,426	173,622,135	180,878,918

Deferred Maintenance

Department of Defense – Army General Fund

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

For Fiscal Year Ended September 30, 2022 and 2021

(Excludes Military Family Housing)

(In Millions of Dollars)	FY 2022			FY 2021		
Active Real Property	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/Plant Replacement Value)
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$347,519	$47,930	14%	$332,616	$43,559	13%
Category 2: Buildings, Structures and Linear Structures (Heritage assets)	$54,487	$11,014	20%	$48,610	$8,602	18%
Inactive Real Property						
Category 3: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$19,214	$5,412	28%	$16,582	$4,375	26%

Department of Defense – Army General Fund

MILITARY FAMILY HOUSING — REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

For Fiscal Year Ended September 30, 2022 and 2021

(Military Family Housing Only)

(In Millions of Dollars)	FY 2022			FY 2021		
Active Real Property	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/Plant Replacement Value)
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$12,604	$1,245	10%	$11,402	$1,525	13%
Category 2: Buildings, Structures and Linear Structures (Heritage assets)	$916	$285	31%	$793	$216	27%
Inactive Real Property						
Category 3: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$1,564	$191	12%	$666	$142	21%

Narrative Statement

Per DoD Financial Management Regulation 7000.14-R (March 2020), Volume 6B, Chapter 12, the Army's deferred maintenance estimates for FY 2022 and FY 2021 include all facilities in which DoD has ownership interest under the control of the Army and are not funded for Sustainment by another Service, Non-Appropriated Funds, commissary surcharges or non-DoD sources. Assets that are fully disposed, damaged beyond repair, obsolete, or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings/Facility Condition Index (values 0-100) reported in the Installation Status Report (ISR) 4th Quarter FY 2022 and FY 2021 obtained either by inspection or application of business rules described below. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x plant replacement value (PRV).

Q-ratings are determined by the Installation Status Report (ISR) for non-building facilities using inspection or business rules. The Army transitioned to the Sustainment Management System (SMS) – BUILDER to report building conditions for the majority of buildings. BUILDER condition ratings for approximately 61,000 were top-loaded into ISR for FY 2022. During the BUILDER/ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: 95 if the facility is no more than 5 years old; 85 if the facility is permanent or semi-permanent construction and between 5 and 15 years old; 70 if the facility is permanent or semi-permanent construction and more than 15 years old; 59 if the facility is temporary construction and more than 5 years old; 95 if the asset is a lease or privatized. For assets with a Non-Functional operational status, Q-ratings are assigned 100 if the reason code is RENO, 59 if the reason code is ENVR, and 59 if the reason code is DAMG. Acceptable operating condition represents facilities with no deferred maintenance.

Facilities of all ownership interests are included in the data set; relocatable buildings are considered equipment and excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets. Facilities that are Permanent or Semi-Permanent with an Operational Status of "Active" or "Semi-Active" are included, less those that meet the following criteria:

    1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
    2. The asset is designated as a Heritage Asset.
    3. A Disposal Completion Date is associated with the Asset
    4. A Disposal Reason Code is associated with the asset.

- Category 2: Buildings, Structures, and Utilities that are Heritage Assets. Facilities that are Permanent or Semi-Permanent with an Operational Status of “Active” or “Semi-Active” and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
  2. A Disposal Completion Date is associated with the Asset
  3. A Disposal Reason Code is associated with the asset.

- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets. Facilities with an Operational Status of “Caretaker,” “Excess,” “Non-Functional,” “Outgrant,” “Surplus” or “Closed” plus “Active” and “Semi-active” with a Disposal Reason Code plus “Active” and “Semi-active” with a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR (DM&R)
For Fiscal Year Ended September 30, 2022
(Amounts in thousands)

Major Categories	FY 2021 DM&R	FY 2022 OP-30/PB-45/ PB-61 Amounts	Adjustments	FY 2022 Totals
Aircraft	296,521	125,790	-	125,790
Automotive Equipment	75,954	58,364	-	58,364
Combat Vehicles	144,373	249,730	-	249,730
Construction Equipment	403	0	-	0
Electronics and Communications Systems	307,745	156,068	-	156,068
General Purpose Equipment	54,777	279,446	-	279,446
Missiles	143,827	167,704	-	167,704
Ordnance Weapons and Munitions	22,547	0	-	0
Other	8,977	186,362	-	186,362
Ships	9,739	10,678	-	10,678
Grand Total	**$ 1,064,862**	**$ 1,234,142**	**-**	**$1,234,142**

The OP-30 from the FY 2022 Budget of the U.S. Government was used to compile the deferred depot level maintenance. Depot Maintenance Operations and Planning System is the automated system for capturing depot-level deferred maintenance data. The data is for sub-activity group 123, all active components. There has been no significant change in reporting methodology in deferred maintenance and repairs from prior years.

Funding provided to support the Program Objective Memorandum (POM) 12-16 for depot maintenance adequately supported the Army’s most critical modernization and equipping strategies. The program ensured that Soldiers have the equipment needed to execute their assigned mission as they progress through the Army Force Generation (ARFORGEN) cycle. The bottom-line is that depot maintenance requirements continue to grow while the Army continues to get fewer resources with reduced budgets.

The funding also provided the resources necessary for Land Forces Depot Maintenance to meet the requirements of an Army transitioning from operations in theater to home station training – an expeditionary Army engaged in full spectrum operation (FSO) training and poised for future contingency response. In recent years, the Army has leveraged Overseas Contingency Operation (OCO) dollars to offset depot maintenance through equipment reset for redeploying units. Redeployed units will demand greater equipment to support FSO training and future contingencies. To meet the exigencies of war, Army has generated a digitally dependent force. The digitally integrated Army of today is far different from the analog Army that went to war at the beginning of the decade. These technologies must now be sustained.

Land and Land Rights

In accordance with the Statement of Federal Financial Accounting Standards 59, *Accounting and Reporting of Government Land*, the Army GF estimated acreage of GPP&E land and stewardship land is presented in three predominant use subcategories: Conservation and Preservation Land, Operational Land, and Commercial Use Land.

Department of Defense — Army General Fund

ESTIMATED ACREAGE BY PREDOMINANT USE – GPP&E LAND AND PERMANENT LAND RIGHTS

For the Year Ended September 30, 2022

	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Held for Use				
October 1, 2020	-	*	*	11,559,336
September 30, 2021	-	*	*	11,548,032
September 30, 2022	-	159	11,035,989	11,036,148
Held for Disposal or Exchange				
September 30, 2021	-	-	*	*
September 30, 2022	-	-	59	59

*The Army has prioritized data cleansing for land in support of SFFAS 59 to report the predominant use. Due to the timing of the requirement, the Army implemented the new breakout in time for yearend FY 2022. The Army did not have this breakout available for yearend FY 2021 but will report it in future fiscal years.

The acquisition and use of land is critical to the Army's mission to deploy, fight and win our nation's wars by providing ready, prompt and sustained land dominance by Army forces across the full spectrum of conflict as part of the joint force. This mission includes land, air, and marine operations to support the National Military Strategy. The Army's land provides an area for facilities, training ranges, housing, and transportation, including airfields. These ranges, transportation modes, and facilities are used to recruit, train, equip, and deploy the military, civilians, and contractors from other tenant organizations.

Army Land Policies

The Secretary of the Army (SecArmy) has real estate procurement and management authority under United States statutes. 10 USC § 2663(h), "Land Acquisition Authorities", establishes monetary authority levels for purchasing land. Funding for land purchases is authorized by Congress under the Military Construction (MILCON) appropriations. The Army operates under the Department of Defense Directive (DoDD) 4165.06, *Real Property and Army Regulation* (AR) 405-10, *Acquisition of Real Property and Interests Therein*, which establishes policy for land acquisition.

The disposal of land is governed by Department of Defense Instruction (DoDI) 4165.72, *Real Property Disposal*, and AR 405-90, *Disposal of Real Property*. The Army GF may nominate excess land for disposal and submit a Report of Availability through the Army for approval and Congressional notification. Army-controlled real property in the United States that is excess to DoD requirements, and above dollar delegations outlined in Part 102–75, Subchapter C, Title 41, *Code of Federal Regulations* (41 CFR 102–75) *Federal Management Regulation* (FMR), will be reported to the General Services Administration (GSA) for disposal. The disposal process includes a check of requirements for the land by other DoD agencies and other Federal Agencies. If there is no government need, the GSA may sell it for commercial use or to a local government.

Heritage Assets and Stewardship Land

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2022

The conditions of archeological sites across the Army remain varied from poor to excellent based on a number of factors including the environmental setting and natural disasters, the type of the site, and impacts from Army activities. If an Army activity has the potential to adversely impact an archeological site eligible for the National Register, the Garrison's Installation Cultural Resources Management Plan (ICRMP) contains provisions for how the installation might proceed to avoid, minimize, or mitigate those impacts. The ICRMPs provide installations the information and tools necessary to manage their cultural resources, including archeological sites, in compliance with federal requirements. These plans provide for site protection, site condition monitoring, and mitigation procedures for adverse impacts to sites. Overall, the conditions of sites on Army installations are fair, based on the Army's cultural resource management procedures.

Limitations of the Financial Statements

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

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

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

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

November 8, 2022

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

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Department of the Army Working Capital Fund Financial Statements and Related Notes for FY 2022 and FY 2021 (Project No. D2022-D000FI-0042.000, Report No. DODIG-2023-015)

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to audit the U.S. Department of the Army (Army) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2022, and 2021. The contract required KPMG to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the Army's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army Working Capital Fund's Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army Working Capital Fund FY 2022 and FY 2021 Financial Statements and related notes.

KPMG's report, "Report on the Audit of the Consolidated Financial Statements," discusses 15 material weakness categories related to the Army's internal controls over financial reporting.[*] Specifically, KPMG concluded that the Army did not:

- prepare complete and accurate populations for beginning balances;
- accurately record, reconcile, and support inventory balances, gains and losses, and Cost of Goods Sold;
- provide a complete and accurate population, track additions and disposals, and value of General Equipment, including software;
- provide a complete and accurate population and value of Real Property;
- develop estimates and verify the accuracy of its environmental and disposal liabilities;
- verify that revenue, accounts receivable, collections, spending authority, supply turn-in, credit memorandum, and unfilled customer order balances recorded in the consolidated financial statements were complete, accurate, valid, and supported by appropriate documentation;
- provide and maintain sufficient supporting documentation to demonstrate that balances and transactions were properly reported on the financial statements and control activities were performed;
- ensure the effective design, implementation, and operation of financial information systems controls;
- demonstrate that manual journal entries to the general ledger were complete, accurate, and valid;
- identify, classify, and record accruals for goods and services;

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

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

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

- document controls and reconcile Fund Balance With Treasury using reliable financial data;

- validate that financial information was completely and accurately transferred and reconciled between feeder systems and financial systems, and reported on the financial statements; or

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

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

In connection with the contract, we reviewed KPMG's report and related documentation and discussed them with KPMG's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Army Working Capital Fund FY 2022 and FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 8, 2022 report, and the conclusions expressed within the report.

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

Lorin T. Venable

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

Attachment:
As stated

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

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of the United States (U.S.) Department of the Army (Army) Working Capital Fund (WCF), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

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

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements. Also, the Army WCF valued a significant portion of inventory using deemed cost as of October 1, 2018. However, deemed cost is not an acceptable valuation method for the opening balance of inventory until the Army WCF makes an unreserved assertion that its inventory is presented fairly in accordance with U.S. generally accepted accounting principles.

Other Matter - Interactive Data

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

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Army WCF consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing*

Standards, and OMB Bulletin No. 22-01, and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

Required Supplementary Information

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

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the Army WCF's consolidated financial statements as of and for the year ended September 30, 2022, we considered the Army WCF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army WCF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Report on Compliance and Other Matters

In connection with our engagement to audit the Army WCF's financial statements as of and for the year ended September 30, 2022, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01, and which is described in item A of the accompanying Exhibit II.

We also performed tests of the Army WCF's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in item B of the accompanying Exhibit II, in which the Army WCF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

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

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

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

Purpose of the Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, D.C.
November 8, 2022

A. Beginning Year Balances

Management has undergone significant efforts to become auditable; however, management and its service providers did not develop and implement processes and controls to prepare complete and accurate populations for the beginning balances on the consolidated financial statements.

The above condition primarily resulted because management and its service providers did not maintain sufficient and appropriate detailed transactions and supporting documentation, consistently obtain relevant and reliable data, process the data into populations that supports the beginning balances, monitor the design and operating effectiveness of the internal control system, and fully implement corrective actions to remediate the deficiencies.

The criteria are Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* and Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

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

Recommendations:

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

- Develop and implement processes and controls to prepare complete and accurate populations at the transaction-level for the beginning balance sheet and statement of budgetary resource balances.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the beginning balance sheet and statement of budgetary resource balances.
- Monitor the design and operating effectiveness of the internal control system as part of the normal course of operations.
- Focus resources on implementing corrective actions.

B. Inventory

Management and its service provider did not consistently design, document, implement, and operate controls over inventory as follows:

Inventory Valuation

- Management valued a significant portion of inventory using deemed cost as of October 1, 2018; however, deemed cost is not an acceptable valuation method for the opening balance of inventory until management makes an unreserved assertion that its inventory was presented fairly in accordance with U.S. generally accepted accounting principles.
- Management did not design, implement, and operate controls to record inventory at the proper valuation and demonstrate inventory valuation was supported by documentation readily available for inspection. In addition, management did not fully design, document, and implement controls to provide a population of inventory price changes.
- Management did not sufficiently design, document, implement, and operate controls to monitor moving average cost transactions and calculations to identify and resolve transactions that incorrectly impacted the moving average cost calculation, and demonstrate that costs were appropriate and supported. In addition, management did not design and implement controls over the data used in monitoring the moving average costs.
- Management did not fully design and implement policies and controls to identify, appropriately account for, and report excess, obsolete, and unserviceable inventory. Additionally, management did not fully establish policies and controls over its methodologies, assumptions, data, and reports used to identify excess, obsolete, and unserviceable inventory, or consistently maintain documentation to support its analysis and controls. Management also did not consistently recognize excess inventory at net realizable value.

Inventory Existence and Completeness

- Management did not effectively design, implement, and perform reconciliations between the financial system and warehouse management systems, resolve differences between such systems, document the reconciliations including how differences were resolved, and maintain reconciliation documentation.
- Management did not consistently execute controls over inventory receipt and issuance transactions as receipt and issuance documentation was not readily available and did not consistently demonstrate transactions were timely and accurately recorded.
- Management did not effectively design and consistently implement inventory cycle count policies and controls across all warehouse locations. Controls did not sufficiently address the definition of items to be counted, support for not counting all inventory, frequency of counts, resolving count differences, resolving differences between warehouse management and financial systems, monitoring count execution and results, thresholds used, supporting adjustments recorded, and documentation demonstrating execution of all controls.
- Management did not effectively design and consistently operate controls to monitor open stock transport orders (i.e., inter-plant transfers), and adjust inventory records for invalid stock transport orders. Additionally, management did not design and implement controls over criteria and reports used to monitor open stock transport orders.
- Management did not effectively design and implement controls to maintain accurate inventory data in the warehouse management and financial systems.

- Management did not obtain assurance over the design, implementation, and operating effectiveness of controls for the Army WCF inventory held at Defense Logistics Agency warehouses; specifically controls related to data transmission, inventory receipt recordation and acceptance, completeness of assets in storage, existence, rights, condition code of items/valuation, adjustments to balances, timeliness of fulfilling orders, shipping, and safeguarding of assets. Additionally, management did not design sufficient compensating controls related to inventory held at Defense Logistics Agency warehouses.
- Management did not have a fully documented understanding of contractors' information, locations, processes, and controls over inventory held at all contractor sites. In addition, management did not effectively design and implement monitoring and reconciliation controls over inventory held at contractors as management did not reconcile its records with all contractors, management's records did not always agree to the contractors' records, and included inventory for closed contracts.

Inventory Held for Repair, Work In Process, and Other Costs

- Management did not fully design, implement, and document policies and controls for inventory held for repair, including the repair cost methodology, calculations, assumptions, and underlying data used. Additionally, management did not implement controls to demonstrate that held for repair documentation was properly maintained and readily available for inspection.
- Management did not design and implement controls to monitor work in process projects to identify and adjust for completed projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value. Additionally, management did not design and implement controls to expense repair costs in excess of serviceable value, demonstrate work in process reports are complete and accurate, and properly account for and support project costs.
- Management did not effectively design, implement, and operate controls to monitor gains, losses, costs of goods sold, and other costs resulting from inventory transactions to determine the transactions were supported, accurate, and recognized in the proper accounting period.

The above conditions primarily resulted because of the following:

- Management did not perform a complete risk assessment to identify risks and information, and fully establish policies and controls to address such risks.
- Management and its service provider did not consistently assign sufficient resources to responsibilities, delegate authority to individuals, and communicate policies and assigned responsibilities. Additionally, management did not train and develop individuals to perform their responsibilities and enforce accountability of individuals performing responsibilities.
- Management did not perform appropriate monitoring of controls to determine transactions were properly recorded and supporting documentation was consistently maintained and readily available for inspection.
- Management and its service provider did not timely document and implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 1: Accounting for Selected Assets and Liabilities, FASAB SFFAS 3: *Accounting for Inventory and Related Property*, SFFAS 7: *Accounting for Revenue and Other Financing Sources*, and SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*

- Treasury Financial Manual
- DoD policies and guidance
- Army policies and guidance
- Federal Financial Management Improvement Act of 1996 (FFMIA) and OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*

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

Recommendations:

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

- Complete risk assessments to identify financial statement risks and design, document, and implement policies and controls to verify inventory, gains, losses, costs of goods sold, and other costs are properly and timely recorded in the financial system. In addition, assign sufficient resources to perform controls, delegate authority to individuals, communicate responsibilities, develop individuals, and enforce accountability. Furthermore, timely implement corrective actions and monitor controls to determine transactions are properly recorded and supporting documentation is consistently maintained and readily available for inspection.
- Record deemed cost adjustments when management is ready to make an unreserved assertion, and design and implement controls to consistently apply deemed cost adjustments.
- Design, implement, and monitor the effectiveness of controls to record inventory at the proper valuation, and demonstrate inventory valuation is supported by documentation, and populations readily available for inspection.
- Design, implement, and operate controls to monitor moving average cost transactions and calculations to identify and resolve transactions that incorrectly impact the moving average cost calculation, and demonstrate that the costs and data used are appropriate and supported.
- Design and implement policies and controls over methodologies, assumptions, data, reports, and supporting documentation used to identify and recognize excess, obsolete, or unserviceable inventory at net realizable value.
- Complete the design and implementation of reconciliations between the financial system and warehouse management systems to include resolving differences between such systems and maintaining reconciliation documentation.
- Enforce proper and timely execution of controls over recording inventory receipt and issuance transactions in the warehouse management and financial systems.
- Implement consistent cycle count policies and controls across all locations to address the definition of items to be counted, support for not counting all inventory, frequency of counts, resolving count differences, resolving differences between warehouse management and financial systems, monitoring count execution and results, thresholds used, supporting adjustments recorded, and documentation demonstrating execution of all controls.
- Design, implement, and effectively operate monitoring controls over open stock transport orders to adjust the inventory records for invalid stock transport orders and over criteria and reports used to monitor open stock transport orders.
- Design and implement controls to maintain accurate warehouse system information in the financial system, and consistently perform and document monitoring controls over the accuracy of inventory data.

- Monitor the service provider and design and implement compensating controls when service provider controls over inventory held at Defense Logistics Agency warehouses are not properly designed and implemented, or are ineffective.
- Document contractors’ information, locations, processes, and controls over inventory held at all contractor sites. In addition, design and implement monitoring and reconciliation controls over inventory held at contractors.
- Design and implement policies and controls for inventory held for repair, including repair cost methodologies, calculations, assumptions, and underlying data used. In addition, implement controls to demonstrate held for repair documentation is properly maintained and readily available for inspection.
- Design and implement controls to identify and adjust for completed work in process projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value, expense repair costs in excess of serviceable value, demonstrate that work in process reports are complete and accurate, and appropriately account for and support project costs.
- Design and implement controls to monitor gains, losses, costs of goods sold, and other costs resulting from inventory transactions to determine the transactions are supported, accurate, and recognized in the correct accounting period.

C. Property, Plant, and Equipment - General Equipment

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

- Management is in the process of developing a deemed cost methodology for valuation of opening general equipment and software balances; however, management did not complete all steps to make an unreserved assertion, and did not provide sufficient appropriate supporting documentation for historical cost valuation.
- Management did not implement controls to verify general equipment data elements (e.g., activation date and accumulated depreciation) were completely and accurately recorded in the property system. In addition, management did not design its general equipment physical inventory processes to include performing procedures to verify that general equipment balances were complete.
- Management did not effectively design and perform controls over the recording of acquisitions, disposals, impairments, and construction-in-progress costs for general equipment. In addition, management did not effectively implement monitoring review controls over general equipment acquisitions and disposals.
- Management did not effectively implement controls over the reconciliations between the property system and the financial system, and timely research and transfer costs accumulated in the construction-in-progress accounts for general equipment.

The above conditions primarily resulted because of the following:

- Management did not identify all general equipment and internal use software risks, and fully establish policies and controls to address such risks.
- Management did not assign the appropriate individuals to general equipment and internal use software control responsibilities, effectively communicate responsibilities and quality data to individuals, train and develop individuals, and enforce accountability of individuals performing internal control responsibilities.
- Management did not monitor the design and operating effectiveness of the internal control system as part of the normal course of operations.
- Management did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment,* SFFAS 44: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD policies and guidance
- Army policies and guidance

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

Recommendations:

We recommend that management perform the following:

- Complete all necessary steps to make an unreserved assertion for general equipment and software, and communicate and enforce policies and procedures to retain supporting documentation for general equipment and software amounts.
- Design and implement controls over general equipment data elements, and perform floor-to-book physical inventory procedures to determine that general equipment financial information is completely and accurately recorded in the property system and the financial system.
- Design and implement controls, including monitoring review controls, to properly record acquisitions, disposals, impairments, and construction in progress costs for general equipment.
- Implement and monitor controls to reconcile the property system and financial system, and timely transfer costs accumulated in the construction-in-progress accounts.
- Identify all risks, establish controls to respond to such risks, enhance general equipment and software policies, communicate the policies throughout the organization, train and develop individuals on executing internal controls, and enforce accountability of individuals performing responsibilities, and monitor compliance with policies.

D. Property, Plant, and Equipment - Real Property

Management did not consistently design, document, and implement controls over real property as follows:

- Management is in the process of developing a deemed cost methodology for valuation of opening real property balances; however, management did not complete all steps to make an unreserved assertion, and did not provide sufficient appropriate supporting documentation for historical cost valuation.
- Management did not effectively design and implement controls to verify real property data elements (e.g., ownership, asset identifier, cost, useful life, and activation date) were supported and completely and accurately recorded in the property system. In addition, management did not design its real property physical inventory processes to include performing procedures to verify that real property balances were complete.
- Management did not effectively design and perform controls over the recording of acquisitions, disposals, impairments, and construction-in-progress costs for real property.
- Management did not effectively implement controls over the reconciliations between the property system and the financial system, and timely research and transfer costs accumulated in the construction-in-progress accounts for real property.
- Management did not design and implement controls to accurately identify, classify, and report multi-use heritage assets within the real property population.
- Management did not design and implement controls to address the completeness and accuracy of land acreage recorded in the property system and reported in the financial statements.

The above conditions primarily resulted because of the following:

- Management did not identify all real property and land risks, and fully establish policies and controls to address such risks.
- Management did not assign the appropriate individuals to real property and land control responsibilities, effectively communicate responsibilities and quality data to individuals, and train and develop individuals performing internal control responsibilities.
- Management did not monitor the design and operating effectiveness of the internal control system as part of the normal course of operations.
- Management did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment*, SFFAS 29: *Accounting for Heritage Assets and Stewardship Land*, SFFAS 44: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD policies and guidance
- Army policies and guidance

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

Recommendations:

We recommend that management perform the following:

- Complete all necessary steps to make an unreserved assertion for real property, and communicate and enforce policies and procedures to retain supporting documentation for real property amounts.
- Design and implement controls over real property data elements, and perform floor-to-book physical inventory procedures to determine that real property financial information is supported and completely and accurately recorded in the property system and the financial system.
- Design and implement controls, including monitoring review controls, to properly record acquisitions, disposals, impairments, and construction-in-progress costs for real property.
- Implement and monitor controls to reconcile the property system and financial system, and timely transfer costs accumulated in the construction-in-progress accounts.
- Design and implement controls to accurately identify, classify, and properly report multi-use heritage assets, and determine that land acreage is supported and completely and accurately recorded in the property system and the note disclosure in the financial statements.
- Identify all risks, establish controls to respond to such risks, enhance real property policies, communicate the policies throughout the organization, train and develop individuals on executing internal controls, enforce accountability of individuals performing responsibilities, and monitor compliance with policies.

E. Environmental and Disposal Liabilities

Management did not consistently design, document, and implement processes, procedures, and relevant control activities over environmental and disposal liabilities (E&DL) to:

- Verify the completeness and accuracy of real property asset-driven populations used to determine the environmental and disposal liabilities, and assess which assets within the general equipment and hazardous waste permitted facilities asset group have environmental and disposal liabilities.
- Determine the estimation model, assumptions, data inputs, cost data elements, and remediation approach are appropriate, accurate, supported, consider estimation uncertainty, and are in accordance with regulatory and industry standards.
- Perform review procedures over the asset-driven estimates and document the review process performed, including conclusions on the reasonableness of the assumptions and data elements and sufficiency of the estimate supporting documentation used.
- Demonstrate that management's review of the environmental and disposal liabilities estimate addresses management's assumptions that the environmental and disposal liabilities are complete and accurate.
- Perform complete retrospective reviews to assess the accuracy of the estimation methodologies used for asset-driven estimates, and the reviews of applicable thresholds for each asset type to determine that the thresholds are reasonable and supported.
- Determine the relevance and reliability of the current cost estimating software, the underlying information within the cost estimating software, and the model used to develop asset-driven estimates.

The above conditions primarily resulted because of the following:

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

The criteria are as follows:

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

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

Recommendations:

We recommend management perform the following:

- Complete comprehensive risk assessments to identify and analyze information, data, and changes for environmental and disposal liability risks, and fully establish policies, procedures, and control activities to address such risks. Assign sufficiently skilled and experienced financial resources to perform relevant environmental and disposal liability reporting responsibilities, communicate responsibilities, and timely prioritize documentation and implementation of corrective actions.
- Design and implement controls and processes to:
  - Perform and document reviews of the asset-driven populations, specifically documenting who is responsible for completing review procedures, the review requirements, precision expectation for the data and assumptions, sufficiency of the estimate documentation, and timeline to complete the review.
  - Identify and determine the valuation methodology for estimating future environmental disposal costs for general equipment.
  - Determine if the asset-driven guidance cost estimate assumptions and data inputs are valid, and in accordance with regulatory and industry standards.
  - Perform reviews over the asset-driven estimates and verify that the estimation model, assumptions, data inputs, cost data elements, and remediation approach are appropriate, accurate, supported, include estimation uncertainty, and are in accordance with regulatory and industry standards.
- Enhance existing procedures, and control activities over the review of the environmental and disposal liability to document the defined precision of management's review and support for how conclusions were determined.
- Perform retrospective reviews for asset-driven estimates, including defining management's acceptable thresholds for asset types, and documenting management's risk assessment and conclusion on acceptable thresholds for asset-driven estimates.
- Perform procedures to annually review verification support to determine the relevance of the cost estimating software as it directly relates to asset-driven estimates, and maintain documentation of how management determined the information within the cost estimating software is reliable.

F. Revenue

Management and its service providers did not properly design or consistently operate controls to verify that revenue, accounts receivable, collections, spending authority, supply turn-in, credit memo, and unfilled customer order balances recorded in the consolidated financial statements are complete, accurate, valid, and supported by appropriate documentation as follows:

- Management did not design, document, and implement a process and controls to consistently recognize revenue transactions when the goods are delivered to and accepted by the customer in accordance with U.S. generally accepted accounting principles.
- Management did not have appropriate policies and controls to verify that labor rates, labor hours, material prices, material quantities, planned costs, credit amounts, and other information used to determine revenue were complete and accurate.
- Management and its service providers did not effectively operate controls to verify that revenue, accounts receivable, collections, spending authority amounts, and unfilled customer order supporting documentation (e.g., support for funded amount, quantity shipped, material price, labor rates, and other information) were consistently maintained and readily available for inspection.
- Management did not develop, document, and implement processes and controls to properly record and present, in the consolidated financial statements, a revenue allowance for potential returns, allowances, price redeterminations, or other reasons in accordance with accounting standards.
- Management and its service providers did not consistently develop, document, implement, and operate controls to determine that revenue, accounts receivable, collections, spending authority, unfilled customer order, supply turn-in, and credit memo transactions were recorded in the proper account, in the proper accounting period, or at the correct amount. In addition, management did not implement a process and controls to consistently adjust customer orders for price changes, communicate the related order changes to customers, and retain documentation for such communication.
- Management did not fully design and operate controls to timely identify and adjust invalid unfilled customer order and account receivable balances. Furthermore, management did not adhere to its policies and procedures for performing the controls.
- Management did not properly design and implement the financial system posting logic controls for revenue transactions related to certain collection transactions with non-federal entities and to credit memos.
- Management did not develop and implement processes and controls to prepare a complete and accurate population for industrial operations spending authority. In addition, management did not properly design, document, and implement the material price, credit value, revenue, accounts receivable, and unfilled customer order reconciliations between financial systems to determine that transactions are complete and accurate.

The above conditions primarily resulted because of the following:

- Management did not perform a complete risk assessment over revenue, accounts receivable, collections, spending authority, and unfilled customer order process areas to identify financial statement risks and fully establish policies and controls to address such risks.
- Management and its service providers did not properly design and document accounting policies, procedures, controls, and posting logic to respond to financial reporting risks and objectives.

- Management and its service providers did not enforce accountability of individuals performing controls, or monitor controls over revenue, accounts receivable, collections, spending authority, and unfilled customer orders to verify that the balances are complete, accurate, valid, and supported by appropriate supporting documentation that is readily available for inspection.
- Management and its service providers did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-136: *Financial Reporting Requirements*, and OMB Circular A-11: *Preparation, Submission and Execution of the Budget*
- Treasury Financial Manual
- FFMIA
- DoD policies and guidance
- Army policies and guidance

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

Recommendations:

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

- Design, document, and implement processes and controls to recognize revenue transactions when goods are delivered to and accepted by the customer.
- Develop, document, and implement policies and controls to address financial reporting risks and verify that labor rates, labor hours, material prices, material quantities, planned costs, credit amounts, and other information used to determine revenue are consistently approved, and completely and accurately recorded in the financial system.
- Monitor and enforce accountability of individuals performing controls to verify that revenue, accounts receivable, collections, spending authority amounts, and unfilled customer order transactions are properly recorded, and that supporting documentation is consistently maintained and readily available for inspection.
- Develop, document, and implement controls to properly record and present, in the consolidated financial statements, a provision for returns, allowances, price redeterminations, or other reasons.
- Develop, document, implement, and consistently operate cut-off procedures and controls to verify that revenue, accounts receivable, collections, unfilled customer order, supply turn-in, and credit memo transactions are recorded in the proper account, correct accounting period, at the correct amount, and adjusted for price changes that cross fiscal years.
- Develop, document, and implement controls to timely record adjustments to unfilled customer orders and accounts receivable for inclusion in the year-end consolidated financial statements, and perform enforcement and monitoring to verify compliance with the policies and controls.

- Design and implement the financial system posting logic controls for transactions related to non-federal entities and credit memos to be consistent with U.S. generally accepted accounting principles and the United States Standard General Ledger (USSGL).
- Develop and document policies that detail the steps to create a complete and accurate population of spending authority transactions, and reconcile the population to the underlying supporting documentation and the general ledger.
- Enhance the design, document, and implement the material price, credit value, revenue, accounts receivable, and unfilled customer order reconciliations between financial systems to verify that transactions are complete and accurate.

G. Evidential Matter

Management and its service providers did not always have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for fund balance with treasury, accounts receivable, inventory, general equipment, real property, accounts payable, environmental and disposal liabilities, other liabilities, revenue, cost, budgetary, and other transactions were properly reported on the consolidated financial statements. Management and its service providers did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the control or transactions recorded in the general ledger used to prepare the consolidated financial statements, and (c) was not effectively reviewed and approved, or the review and approval was not documented by management.

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

The above conditions primarily resulted because of the following:

- Management and its service providers did not fully perform a risk assessment and did not demonstrate a full understanding of its processes, policies, and procedures over record retention.
- Management and its service providers did not assign sufficient resources and enforce accountability to timely locate and provide supporting documentation.
- Management and its service providers did not design and implement business processes and controls, and monitor performance of such controls, to maintain evidential matter and evidence of supervisory review.
- Management and its service provider did not fully train and develop personnel to properly perform the controls and retain and provide relevant evidential matter.
- Management and its service providers did not timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, and OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget*
- DoD policies and guidance
- Army policies and guidance

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur or records in the general ledger may not represent complete, accurate, and valid transactions, potentially leading to a material misstatement in the consolidated financial statements.

Recommendations:

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

- Document a thorough risk assessment, and design, document, and implement procedures and controls to effectively review, document review of evidential matter, and maintain evidential matter.

- Assign the necessary resources and enforce accountability to locate and provide evidential matter in a timely manner.
- Update policies and procedures to define the key evidential matter that is required to support financial statement amounts and performance of controls, require evidential matter to agree with the general ledger detail, and have evidential matter readily available for inspection.
- Provide guidance and training to personnel to document and retain documentation of the operation of controls.
- Focus resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, and job processing controls.

H. Information Technology Controls

Management and its service providers continued to make progress in addressing prior year Information Technology (IT) control deficiencies within their systems. However, management and its service providers did not fully implement sufficient and effective IT controls to protect the financial systems and related financial data. In addition, management did not implement compensating controls to address service providers' IT controls that were not effectively designed, implemented, or operated. The conditions could affect management's and the service providers' ability to provide timely financial data that is complete, valid, and accurate. Our findings are summarized as follows:

- **Access Controls**. Management and its service providers did not consistently design, implement, and operate the operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end, privileged, and system administrative users. Management and its service providers did not consistently conduct and document periodic reviews of user accounts at least annually, to remove access for terminated, transferred, or inactive employees and contractors, and to confirm the need for continued and appropriate access based on least privilege principles, and user activity. In addition, management and its service providers did not consistently design and implement operating system, database, and application audit logging and review controls, including security event identification, tracking, evaluation, and response procedures, as well as restricting log report access to an independent person. Further, management and its service providers did not consistently implement periodic reviews of application, database, and operating system password security and inactivity configuration parameters.
- **Segregation of Duties**. Management and its service providers did not consistently design, implement, and operate controls to identify, define, evaluate, restrict, and document duties and privileges that should be segregated. In addition, management and its service providers did not consistently follow established segregation of duties risk rule sets that were based on least privilege considerations. In cases where incompatible access privileges were required based on business need, management and its service providers did not consistently implement controls to monitor the activities of privileged users to confirm the activities were appropriate. Furthermore, management and its service providers did not consistently monitor segregation of duties and the use of incompatible access privileges that preclude system developers from updating production environments.
- **Configuration Management**. Management and its service providers did not consistently design, implement, and operate the operating system, database, and application layer configuration change management controls, including timely installation of critical patch updates and demonstrating approvals of production environment changes. In addition, management and its service providers did not consistently implement and perform change management controls or maintain evidence to support the identification, tracking, testing, review, or approval of operating system, database, and application changes before migration into production environment. Furthermore, management and its service providers did not design controls to provide system-generated listings of all users with access to the configuration control environments.
- **Security Management**. Management and its service providers did not consistently design, implement, and operate vulnerability management and assessment programs for the operating, database, and application layers. In addition, management did not consistently track all known vulnerabilities and associated remediation activities.
- **Job Processing**. Management and its service providers did not consistently design, implement, and operate controls to appropriately restrict access to the job scheduler. In addition, management did not consistently maintain evidence demonstrating that job schedule changes were identified, tracked, tested, approved, and implemented in the production environment in accordance with policies and procedures. Furthermore, management did not design, document, and implement controls over job processing to identify, track, notify, and resolve processing issues.

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

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53: *Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4*, dated April 2013 and *Revision 5*, dated September 2020
- Army policies and guidance

As a result, the weaknesses posed increased risks to the completeness, accuracy, validity, confidentiality, and availability of the systems and their financial data.

Recommendations

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

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

I. General Ledger Adjustments

Management and its service provider continued to make progress in implementing processes and controls over manual journal entries; however, management and its service provider need to continue improving controls over manual journal entries and other adjustments to the general ledger as follows:

- Management and its service provider did not fully develop, design, and implement controls to define criteria to identify all manual journal entries, demonstrate that all manual journal entries are covered by journal entry or accounting process controls, demonstrate that period end manual journal entries were entered into the financial systems, and properly review the month-end journal entry logs and related journal entries.
- Management and its service provider did not properly design and implement controls over certain accounting and reporting processes to properly support manual journal entries.
- Management and its service provider did not consistently research and investigate the root cause of variances that management recorded to resolve differences between the Department of the Treasury's records and the Army WCF's records, and budgetary to proprietary relationship imbalances.

The above conditions primarily resulted because of the following:

- Management and its service provider have not completed implementing corrective actions over journal entries to reduce the total number and dollar value of journal entries recorded in the accounting and financial reporting systems, and research and resolve the root cause of the variances that are adjusted with a journal entry.
- Management and its service provider did not fully complete risk assessment procedures to identify and respond to journal entry risks.
- Management did not effectively monitor journal entry controls to determine that they are consistently performed.
- Management and its service provider did not have quality information and documentation readily available to support certain journal entries.

The criteria is the GAO *Standards for Internal Control in the Federal Government*.

As a result of the deficiencies noted above, the potential exists that unapproved, inaccurate, invalid, duplicate, or incomplete journal entries are recorded in the accounting and financial reporting systems, potentially causing a material misstatement in the consolidated financial statements.

Recommendations:

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

- Complete the risk assessment process, and respond to risks to include developing, documenting, and implementing policies and controls to define criteria to identify all manual journal entries, demonstrate that all manual journal entries are covered by journal entry or accounting process controls, and demonstrate that all manual journal entries were entered into the accounting and reporting systems.
- Consistently perform and monitor controls over the review of month-end journal entry logs and related journal entries.
- Design and implement controls to properly review and support manual journal entries recorded in the accounting and financial reporting systems, maintain such documentation so it is readily available for review, and monitor such controls.

- Complete the process of implementing corrective actions, to reduce the total number and dollar value of journal entries recorded in the accounting and financial reporting systems, and to research and resolve the root cause of the variances that are adjusted with a journal entry.
- Assign resources to timely implement corrective actions.

J. Accruals

Management continued to make progress in implementing processes and controls over accruals; however, management did not fully develop, document, and implement controls over goods and service accruals as follows:

- Management did not fully design and implement controls to identify and record accruals for certain goods or services as of year-end, review accrual reports and transactions, and appropriately classify accruals as intragovernmental versus with the public.
- Management did not timely complete a retrospective review and analysis to determine that the methodology and assumptions provide a reasonable estimate.
- Management did not fully design and implement controls to determine that goods and service transactions were valid and recorded at the proper amount and in the proper period.

The above conditions primarily resulted because management did not implement monitoring controls and perform a complete risk assessment when establishing accrual methodologies and controls. Additionally, management did not configure financial systems to support the accrual process, and timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Environment*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*, SFFAS 3: *Accounting for Inventory and Related Property*, SFFAS 5: *Accounting for Liabilities of the Federal Government*
- FFMIA
- DoD policies and guidance

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

Recommendations:

We recommend that management perform the following:

- Develop, document, and implement the methodologies, assumptions, policies, and controls to identify and record accruals, review accrual reports and transactions, and properly classify accruals as intragovernmental versus the public.
- Perform a complete risk assessment and develop and document a retrospective review and analysis to determine that the accrual methodologies and assumptions are valid, complete, and accurate.
- Develop and implement controls and configure the financial system to determine that accruals and transactions are recorded at the proper amount and in the proper period.
- Design, document, and implement monitoring controls to determine that accrual policies and controls are properly implemented and performed.
- Evaluate and update the financial system configuration to properly interface with other systems, and appropriately record the accruals as either intragovernmental or non-federal.
- Assign resources to timely implement corrective actions.

K. Financial Reporting

Management and its service providers did not effectively design and implement controls over financial reporting as follows:

- Management did not consistently perform management review controls over the financial reporting process as management did not consistently prepare contingent liability, public-private partnership, and property, plant, and equipment data reports that are used to prepare the consolidated financial statements and note disclosures. In addition, management did not include all deferred maintenance disclosures.
- Management did not configure certain financial systems and processes to comply with the USSGL requirements at the transaction level. In addition, management did not fully design and implement controls and policies to analyze all financial processes to determine that transactions were recorded consistent with USSGL requirements and accounting standards, or document the analysis was completed.
- Management did not fully design and operate the joint reconciliation program review to timely identify and adjust aged, closed, or invalid amounts related to undelivered orders, unfilled customer orders, accounts receivable, goods receipt/invoice receipt, and accounts payable. Furthermore, management did not adhere to its policies and procedures for performing the joint reconciliation program to timely correct invalid balances.
- Management and its service providers did not effectively implement policies and controls to properly record and support obligation, undelivered orders, upward/downward adjustment, expense, disbursement, contract financing payment, accruals, and accounts payable transactions.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process to understand and document all financial reporting risks, establish reporting lines within the organizational structure so that management uses and communicates quality information, and fully establish policies and controls to verify that the consolidated financial statements and note disclosures are properly prepared.
- Management and its service providers did not assign sufficient resources to perform control responsibilities, provide sufficient guidance and training to personnel, enforce accountability of individuals performing responsibilities, monitor control responsibilities, and configure its feeder system and financial systems to appropriately record transactions.
- Management and its service providers did not implement corrective actions timely.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS No. 1: *Accounting for Selected Assets and Liabilities,* SFFAS No. 3: *Accounting for Inventory and Related Property*, SFFAS No. 5: *Accounting for Liabilities of the Federal Government,* SFFAS No. 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and SFFAS No. 49: *Public-Private Partnerships*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget*, and OMB Circular A-136: *Financial Reporting Requirements*
- Treasury Financial Manual
- FFMIA

- DoD policies and guidance
- Army policies and guidance

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

Recommendations:

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

- Complete risk assessments to identify financial statement risks, and design, document, and implement policies and controls to verify that the consolidated financial statements and note disclosures are properly prepared and supported, including the contingent liability, public-private partnership, deferred maintenance, and property, plant, and equipment disclosures.
- Design and implement controls and policies to determine that the posting logic library is complete and accurate, review system posting models to verify they are consistent with the USSGL guidance and the accounting standards, and maintain documentation evidencing completion of such controls.
- Enhance the joint reconciliation program policies and timeline to timely record adjustments to undelivered orders, unfilled customer orders, accounts receivable, goods receipt/invoice receipt, and accounts payable amounts for inclusion in the consolidated financial statements.
- Develop, implement, and monitor controls over properly recording and supporting obligation, undelivered orders, upward/downward adjustment, expense, disbursement, contract financing payment, accruals, and accounts payable transactions.
- Assign sufficient resources to perform financial reporting controls, provide guidance and training to personnel, establish reporting lines within the organizational structure so that management uses and communicates quality information, enforce accountability of individuals performing responsibilities, and monitor controls.
- Assign resources to timely implement corrective actions.

L. Intragovernmental Transactions and Intra-entity Eliminations

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

- Management and its service providers did not effectively design and implement controls for intragovernmental transactions as they did not record the trading partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. In addition, management did not effectively reconcile with their trading partners, or sufficiently support adjustments recorded to match amounts provided by trading partners.
- Management and its service providers did not effectively design and implement controls for intra-entity transactions, as they did not determine whether certain activity should be eliminated and fully support elimination adjustments.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process to understand and document all financial reporting risks, fully establish policies and controls to respond to such risks, and fully implement corrective actions to remediate the deficiencies.
- The financial systems and processes were not designed to capture quality information and all relevant data elements at the detailed transaction level for identifying trading partner, to include intra-entity activity, and the financial systems were not configured to properly record certain transactions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS No. 3: *Accounting for Inventory and Related Property*, and SFFAS No. 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular No. A-136: *Financial Reporting Requirements*, and OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget*
- Treasury Financial Manual
- FFMIA
- DoD policies and guidance

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

Recommendations:

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

- Configure the financial system to require individual transactions to include the trading partner information to enable management and its service providers to report, reconcile, and eliminate intragovernmental balances.
- Complete a risk assessment process and develop, document, and implement policies and controls to properly reconcile with trading partners at the transaction level, and have sufficient evidence to support reconciliation adjustments.

- Complete a risk assessment process, design, and implement controls, and configure the financial system to appropriately identify and eliminate intra-entity amounts, properly record transactions, and maintain documentation to support adjustments recorded.
- Assign resources to timely implement corrective actions.

M. Fund Balance with Treasury (FBwT)

Management and its service provider continued to make progress on implementing processes and controls over FBwT; however, they did not fully design, consistently operate, and document controls over FBwT as follows:

- Management and its service provider did not sufficiently perform, and document controls related to the FBwT reconciliations, including controls over the reliability of data used for the reconciliations and controls over the timely research and resolution of disbursement and collection reconciling differences in accordance with DoD policies and guidance.
- Management and its service provider transitioned to a new FBwT reconciliation process during the fiscal year but did not update the standard operating procedures, including the identification of internal controls and timelines for completion of the reconciliation controls to support financial reporting timelines.
- Management and its service provider did not fully assess and document the risk of financial misstatements from unresolved variances across all reconciliation tiers and how the reconciliation controls are designed to address such risks.
- Management and its service provider did not design and implement effective controls to fully reconcile (i.e., identify, age, assign accountability, and explain differences) the voucher level details to the undistributed adjustments, and resolve differences timely.

The above conditions primarily resulted because management and its service provider process a large volume of FBwT transactions, and did not identify all of the relevant risks, and complete the design and implementation of policies, procedures, and controls to address such risks. Additionally, management and its service provider did not enforce accountability of individuals performing responsibilities, monitor controls, and timely implement corrective actions for FBwT controls.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*
- OMB Circular A-136: *Financial Reporting Requirements*
- Treasury Financial Manual
- DoD policies and guidance

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

Recommendations:

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

- Document FBwT reconciliation controls, including controls over the reliability of data used in the reconciliations, and controls to consistently document status of research, escalate unresolved aged differences, address root cause of differences, and resolve differences in accordance with DoD policies and guidance.
- Update the FBwT standard operating procedures to include the identification of internal controls and timelines for completion of the reconciliations to support financial reporting timelines.
- Assess and document the risk of financial misstatements from unresolved FBwT reconciliation differences.

- Work with the Office of the Secretary of Defense to design and implement Department-wide business processes and controls that allow for accelerated availability of undistributed transaction-level detail, and verify that undistributed journal vouchers are properly recorded and supported.
- Complete a risk assessment, enforce accountability of individuals performing responsibilities, monitor FBwT controls, and timely implement corrective actions.

N. Completeness

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

- Management and its service providers did not fully design and implement reconciliation processes to validate that financial information is transferred completely and accurately between feeder systems, and from feeder systems to the financial system.
- Management and its service providers did not perform an assessment of the appropriateness of the reconciliation thresholds used, and did not evidence that the unreconciled items were immaterial.
- Management and its service providers did not research and resolve reconciliation differences in a timely manner, or retain sufficient reconciliation documentation.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process for certain reconciliations, fully respond to risks, and monitor and enforce the execution of policies and procedures over certain reconciliations.
- Management did not design certain information system to obtain and process source data for use in reconciliations and, as a result, the defined information requirements were not met.
- Management and its service providers did not communicate quality information down and across reporting lines, or develop and train personnel to achieve the entities reconciliation objectives.
- Management and its service providers did not assign sufficient resources to perform all reconciliations, or implement corrective actions over reconciliations.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*, and SFFAS 3: *Accounting for Inventory and Related Property*
- The General Services Administration (GSA), Department of Defense (DoD) and National Aeronautics and Space Administration (NASA) Federal Acquisition Regulation (FAR)
- Treasury Financial Manual
- DoD policies and guidance
- Army policies and guidance

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

Recommendations:

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

- Document a risk assessment for all reconciliations, enhance reconciliation policies and procedures, and design and implement reconciliation processes and controls to respond to identified risks, and determine data used in the reconciliations is complete and accurate.
- Complete a periodic analysis of the appropriateness of the thresholds used to demonstrate that the financial statement impact of unreconciled items under the thresholds is immaterial.

- Assign sufficient resources to complete all reconciliations within the financial reporting timelines, provide training to individuals performing reconciliations, communicate quality information down and across reporting lines, and timely implement corrective actions to reconcile transactional data between systems.
- Design and fully implement controls to monitor and enforce the timely extraction of system data, completion of reconciliations, resolution of reconciliation differences, and maintenance of supporting documentation so it is readily available for inspection.

O. Entity Level Controls

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

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

- Establish an oversight body to oversee the design, implementation, and operation of the Army WCF’s internal control system.
- Consistently develop policies to establish and implement controls across its control environment, and did not develop and maintain sufficient documentation of the control system.
- Consistently recruit, develop, and retain appropriate levels of personnel to achieve the Army WCF’s financial reporting objectives, and provide evidence that management evaluated employee performance, and hold individuals accountable for their control responsibilities.
- Provide evidence to demonstrate the design, implementation, and monitoring of controls over ethics trainings and briefings.
- Effectively design and implement monitoring controls over financial management certification and employee appraisal requirements.

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

- Define measurable risk tolerance for each objective in the risk profile for reporting organizations, or define risk objectives and tolerances for certain financial process areas.
- Complete its risk assessment process to identify, analyze, and address all risks for the financial statements, note disclosures, and profile components required by OMB Circular No. A-123.
- Analyze and respond to identified changes and related risks to maintain an effective internal control system.

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

- Fully design and implement controls over the quality and reliability of financial data and supporting documentation.
- Effectively obtain and communicate quality information down and across internal and external reporting lines.

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

- Effectively monitor and evaluate entity level, manual, general information technology, and system application controls for key financial statement line items and risks.
- Evaluate service organizations controls as a part of the OMB Circular No. A-123 Internal Control Assessment and fully define service organization responsibilities.

- Identify and evaluate all relevant service provider controls and the Army WCF controls to address the complimentary user entity controls noted by the service organizations. In addition, management did not implement controls to address control deficiencies at service organizations, or perform assessments for service organizations that did not have an examination.
- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

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

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*.
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- DoD policies and guidance
- Army policies and guidance

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

Recommendations:

We recommend that management perform the following:

- Establish oversight of the design, implementation and operation of the Army WCF's internal control system.
- Continue to develop and implement control procedures across its control environment, including maintenance of documentation readily available to support the control system.
- Continue corrective action efforts to complete the control catalog to include entity level controls, and design and implement a comprehensive enterprise-wide testing program.
- Recruit, develop, and retain appropriate levels of personnel to achieve financial reporting objectives, complete and document performance evaluations in a readily accessible form, and hold individuals accountable for their control responsibilities.
- Implement uniform tracking and monitoring processes for ethical values and standards of conduct, ethics training and briefings, financial management certifications, and employee appraisals, and maintain documentation of such so that it is readily available for inspection.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas.
- Consider risks associated with prior year findings, the financial statements, note disclosures, changes to processes, as well as profile components required by OMB Circular No. A-123, and analyze and respond to such risks.
- Develop, document, and implement controls over the quality and reliability of financial data and supporting documentation.

- Communicate policies, procedures, controls, and quality information down and across internal and external reporting lines.
- Continue efforts to develop and complete the control evaluation program covering the entity level, manual, general information technology, and system application controls for key financial statement line items and risks.
- Evaluate service organization controls as a part of the OMB Circular No. A-123 Internal Control Assessment and define service organization responsibilities.
- Obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports, and implement controls to address control deficiencies at service organizations.
- Continue efforts to develop and implement corrective actions related to control deficiencies.
- Assign resources to timely implement corrective actions.

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

Management performed an internal control assessment as required under the FMFIA; however, management's assessment did not substantially comply with FMFIA and the related OMB Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requirements as follows:

- Management did not develop and implement effective controls related to the use of quality data and did not timely implement a data quality plan.
- Management did not effectively design its internal control assessment to address all risk profile components required by OMB Circular No. A-123 in its risk assessment template.
- Management did not effectively execute its internal control assessments as management did not consistently document the internal control evaluation plans, financial statement risks, financial assertions, testing procedures, testing results, and evidence of management review.
- Management did not perform internal controls testing at all reporting organizations, test all relevant controls, and consistently develop and maintain corrective action plans.

The above conditions resulted because management did not assign sufficient resources to its internal control testing program, assign responsibility at the appropriate levels of the organization, and monitor the internal assessment program. Additionally, management did not perform sufficient risk assessment and prioritize implementation of all FMFIA and OMB No. A-123 requirements when designing their internal control assessment.

The criteria are as follows:

- FMFIA
- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Army policy and procedures

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

Recommendations:

We recommend that management perform the following:

- Develop and implement controls over the use of data quality and timely implement a data quality plan.
- Update internal control assessment guidance and risk assessment template to include all risk profile components required by OMB No. A-123.
- Assign knowledgeable and sufficient personnel to the internal control assessment program, assign responsibilities to such personnel, monitor the execution of the internal control assessment program, and hold individuals accountable for their assigned responsibilities.

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

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

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

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

The Army WCF did not substantially meet FFMIA requirements because of the reasons discussed in Exhibit I – Material Weaknesses and did not fully perform a risk assessment and design controls in response to the risks. In addition, management and its service provider did not monitor internal controls and timely implement corrective actions. Additionally, management did not complete all necessary corrective action to demonstrate that the financial management systems posting logic is consistent with the USSGL.

The criteria are as follows:

- FFMIA
- Office of Management and Budget (OMB) Circular Number (No.) A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*

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

Recommendations:

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

- Complete risk assessment and implement the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial management system, federal accounting standard, and USSGL requirements.

- Address the federal accounting standards and USSGL requirements in management's guidance and action plans.
- Configure financial management systems and processes to comply with the USSGL requirements and design and document controls to demonstrate that management analyzed all financial processes to determine transactions are recorded consistently with USSGL requirements.

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

SAFM-FOI

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2022 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the audit report. We concur with the findings described in the report and will continue to implement corrective actions to remediate the material weaknesses and instances of non-compliance identified.

2. The results of continued audit readiness efforts, including corrective actions developed and implemented from findings issued during previous audits, demonstrate Army's commitment toward resolving longstanding financial reporting material weaknesses. We have prioritized and focused our remediation efforts on the following areas for FY 2023:
   - Secretary of Defense Audit Priorities
     - Fund Balance with Treasury
     - User Access Controls
     - Universe of Transactions and Financial Reporting Internal Controls
   - Army Working Capital Fund Audit Priorities
     - Inventory Internal Controls
     - Environmental Disposals & Liabilities Completeness and Valuation
     - General Ledger Adjustments
     - Real Property and General Equipment Internal Controls and Valuation
     - Expanded RMIC Program

   We are committed to resolving our material weaknesses, improving all aspects of operations and financial management.

3. The Army will continue to collaborate internally and externally with all stakeholders to implement the systems, processes, and internal controls necessary to achieve accurate financial statements prepared in accordance with generally accepted accounting principles. This will not only result in an unmodified audit opinion but, more importantly, will improve the quality and timeliness of the data used to efficiently and effectively manage the resources provided to us by the Congress and the American taxpayer.

RAMSEY.MICHAEL.ALLEN.[redacted]
Digitally signed by RAMSEY.MICHAEL.ALLEN.[redacted]
Date: 2022.11.05 23:23:14 -04'00'

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

Department of Defense – Army Working Capital Fund

Consolidated Balance Sheets (Unaudited)

As of September 30, 2022 and 2021

(Amounts in Thousands)	2022 Consolidated		Restated 2021 Consolidated	
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	3,061,124	$	1,773,653
Accounts Receivable, Net (Note 6)		176,367		180,729
Total Intragovernmental Assets	$	3,237,491	$	1,954,382
Other Than Intragovernmental				
Cash and Other Monetary Assets (Note 4)	$	10,007	$	15,948
Accounts Receivable, Net (Note 6)		7,876		5,463
Inventory and Related Property, Net (Note 8)		20,210,864		19,776,639
General Property, Plant and Equipment, Net (Note 9)		2,083,876		2,160,971
Advances and Prepayments (Note 10)		106,836		137,871
Total Other Than Intragovernmental		22,419,459		22,096,892
TOTAL ASSETS	$	25,656,950	$	24,051,274
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable	$	116,604	$	156,081
Advances from Others and Deferred Revenue		738		2,423
Other Liabilities (Note 15 & 17)		57,600		52,077
Total Intragovernmental Liabilities	$	174,942	$	210,581
Other Than Intragovernmental				
Accounts Payable	$	256,255	$	166,151
Federal Employee and Veteran Benefits (Note 13)		187,137		179,048
Environmental and Disposal Liabilities (Note 14)		692,047		488,516
Advances from Others and Deferred Revenue		70,868		70,787
Other Liabilities (Note 15, 16 & 17)		224,328		229,193
Total Other Than Intragovernmental		1,430,635		1,133,695
TOTAL LIABILITIES	$	1,605,577	$	1,344,276
COMMITMENTS AND CONTINGENCIES (Note 17)				
NET POSITION				
Unexpended Appropriations – Funds Other than Dedicated Collections	$	460,001	$	135,623
Total Unexpended Appropriations (Consolidated)		460,001		135,623
Cumulative Results of Operations - Funds Other than Dedicated Collections		23,591,372		22,571,375
Total Cumulative Results of Operations - (Consolidated)		23,591,372		22,571,375
TOTAL NET POSITION	$	24,051,373	$	22,706,998
TOTAL LIABILITIES AND NET POSITION	$	25,656,950	$	24,051,274

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

Department of Defense – Army Working Capital Fund

Consolidated Statements of Net Cost (Unaudited)

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)	2022 Consolidated	2021 Consolidated
Program Costs		
Gross Costs	$ 14,437,125	$ 16,848,595
Operations, Readiness & Support	14,437,125	16,848,595
(Less: Earned Revenue)	(15,186,375)	(16,073,889)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(749,250)	774,706
Net Program Costs Including Assumption Changes	$ (749,250)	$ 774,706
Net Cost of Operations (Note 19)	$ (749,250)	$ 774,706

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

Department of Defense – Army Working Capital Fund

Consolidated Statements of Changes In Net Position (Unaudited)

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)	2022 Consolidated	2021 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 135,623	$ 143,626
Beginning Balances, as adjusted	135,623	143,626
Appropriations transferred-in/out	499,711	1,122,078
Appropriations used	(175,333)	(1,130,081)
Net Change in Unexpended Appropriations	324,378	$ (8,003)
Total Unexpended Appropriations, Ending Balance	$ 460,001	135,623
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 22,571,375	$ 22,048,859
Prior Period Adjustment (Note 20)		
Changes in Accounting Principles (+/-)	-	-
Correction of Errors (+/-)	-	-
Beginning Balance, as adjusted	22,571,375	22,048,859
Appropriations used	175,333	1,130,081
Nonexchange revenue (Note 20)	4	378
Transfers-in/out without reimbursement (+/-)	(57,790)	(98,552)
Imputed financing from costs absorbed by others	153,204	159,027
Other (+/-) (Note 20)	(4)	106,288
Net Cost of Operations (+/-)	(749,250)	774,706
Net Change in Cumulative Results of Operations (+/-)	1,019,997	522,516
Cumulative Results of Operations, Ending	23,591,372	22,571,375
Net Position	$ 24,051,373	$ 22,706,998

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

Department of Defense – Army Working Capital Fund

Combined Statements of Budgetary Resources (Unaudited)

For the Years Ended September 30, 2022 and 2021

(Amounts in Thousands)		2022 Combined		2021 Combined
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$	3,383,852	$	5,550,090
Appropriations (discretionary and mandatory)		499,711		310,612
Contract Authority (discretionary and mandatory)		6,561,600		4,219,784
Spending Authority from offsetting collections (discretionary and mandatory)		3,789,489		4,093,549
Total Budgetary Resources	$	14,234,652		14,174,035
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$	11,078,355	$	10,236,345
Unobligated balance, end of year:				
Apportioned, unexpired accounts		3,156,297		3,937,690
Unexpired unobligated balance, end of year		3,156,297		3,937,690
Unobligated balance, end of year (total)		3,156,297		3,937,690
Total Budgetary Resources	$	14,234,652	$	14,174,035
Outlays, net				
Outlays, net (total) (discretionary and mandatory)		(787,760)		650,471
Agency Outlays, net (discretionary and mandatory)	$	(787,760)	$	650,471

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

Note 1. Significant Accounting Policies

1.A. Reporting Entity

The United States (U.S.) Department of the Army's ("Army") mission is to support the national security and defense strategies by providing well-trained, well-led, and well-equipped forces to the Combatant Commanders. This mission encompasses the intent of the Congress, as defined in Title 10 and Title 32 of the U.S.C., to preserve peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

In support of the Army's overarching mission discussed above, the mission and purpose of the Army Working Capital Fund (WCF) is to provide Army General Fund (GF) and other DoD entities, the supplies, equipment and ordnance necessary to protect, sustain, and reconstitute forces. The Army WCF reporting entity and related financial statements includes two activity groups: Supply Management Activity (SMA) and Industrial Operations (IO). The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The IO activity group provides the Army an organic industrial capability to conduct depot level maintenance, repair and upgrade; manufacture munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of the Department of Defense (DoD).

1.B. Basis of Presentation and Accounting

The Army WCF's financial statements have been prepared to report the financial position and results of operations of the U.S. Department of the Army WCF, as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other applicable legislation.

The financial statements have been prepared from the records of the Army WCF in accordance with and to the extent possible, U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB). The Army WCF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position and Combined Statements of Budgetary Resources, in accordance with Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. Accounting standards also allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Army WCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army WCF business areas. The Army WCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems.

1.C. Appropriations and Funds

The Army WCF received its initial cash corpus through an appropriation from Congress to finance initial operations. The Army WCF provides goods and services to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. The Army WCF uses contract authority which permits obligations to be incurred in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. While reimbursable authority may be subject to apportionment by the OMB, recovered (deobligated) contract/reimbursable authority is subject to automatic reapportionment. In addition, Congress may appropriate funds to finance specific programs within the Army WCF.

1.D. Basis of Accounting

The Army WCF's financial statements and supporting trial balances are compiled from the underlying proprietary and budgetary financial data of the Army WCF. The Army WCF records financial transactions on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned, and costs/expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds may be recognized in advance of the proprietary accruals. Budgetary basis of accounting facilitates compliance with legal requirements and controls over the use of Federal funds. Under the budgetary basis of accounting, Army WCF records budgetary authority when authorized through legislation or agreements with customers and records new obligations when the Army WCF signs a contract for goods or services or takes other actions that requires Army WCF to make payments to other entities. In addition, Army WCF records outlays when disbursements are made and receipts when received.

1.E. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements. Significant estimates that affect Army WCF financial statements include, but are not limited to, estimates for Environmental & Disposal Liabilities (E&DL), the valuation of some classes of inventory, payroll and benefit accruals, contingent liabilities, goods and services accruals, and useful lives of property, plant, and equipment. Actual results may differ from those estimates; therefore, estimates are adjusted to reflect actuals during the period they become available.

1.F. Revenues and Other Financing Sources

The Army WCF earns revenue as a result of costs incurred for goods and services provided to the Army GF, other federal agencies, and to the public. Army WCF utilizes full-cost pricing, as defined in Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, for services provided as required by OMB Circular No. A-25, *User Charges*.

The Army WCF revenue is primarily the result of exchange transactions, which arises when the Army WCF provides goods and services to the public or to another government entity for a price. The IO business area recognizes revenue according to the percentage-of-completion method. The SMA business area recognizes revenue when inventory is sold and issued to customers.

1.G. Recognition of Expenses

The Army WCF recognizes costs at the time the expense is incurred, or benefit received, regardless of whether an invoice has been received. Cost is the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce goods or to perform services. The costs that apply to the Army WCF operations in that period are recognized as either cost of goods sold or operating expenses in that period.

1.H. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual, Volume 1, Part 2 – Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army WCF cannot accurately identify intragovernmental transactions by customer because there are some instances when Army WCF systems do not track buyer and seller data at the transaction level. DoD entities and other federal entities who sell to the Army WCF ("Sellers") provide summary balances for revenue, accounts receivable, and unearned revenue to the Army WCF. In most cases, the Army WCF adjusts the reciprocal account balances (i.e. expenses, accounts payable, and liabilities for advances and prepayments) to agree with the seller's details which allows intragovernmental balances to be eliminated at the consolidated DoD level. The Army WCF is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable the Army WCF to correctly report, reconcile, and eliminate intragovernmental balances.

Imputed financing represents the cost paid on behalf of the Army WCF by another Federal entity. The Army WCF recognizes imputed costs for: (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under the *Federal Employees' Compensation Act*; and (3) losses in certain litigation proceedings. Consistent with SFFAS 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

The Army WCF's proportionate share of public debt is not included in the financial statements. The federal government does not apportion debt and its related costs to federal agencies.

1.I. Transactions with Foreign Governments and International Organizations

The DoD implements the administration's foreign policy objectives under the provisions of the *Arms Export Control Act of 1976* through the Foreign Military Sales (FMS) trust fund, which facilitates the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations. In doing so, the Army WCF may perform reimbursable activities on behalf of the FMS trust fund. The cost of administering these sales is required to occur at no cost to the Federal Government. For each sale, the foreign government makes an advance payment in U.S. dollars as required to the FMS trust fund. The FMS trust fund subsequently reimburses the Army WCF.

1.J. Nonentity Assets

The Army WCF classifies assets as either entity or nonentity. Entity assets are those that the Army WCF has authority to use for its operations. Nonentity assets are not available for use in the Army WCF normal operations. The Department has stewardship accountability and reporting responsibility for nonentity assets. Nonentity assets are offset by liabilities to third parties and have no impact on Net Position. For additional information, see Note 2, *Nonentity Assets*.

1.K. Fund Balance with Treasury

The Army WCF maintains its monetary resources of collections and disbursements in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), Military Departments, U.S. Army Corps of Engineers (USACE), and the financial service centers of the Department of State process the majority of worldwide cash collections, disbursements, and adjustments of the Army WCF. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBwT) account. On a monthly basis, the Army WCF FBwT is reconciled and adjusted to agree with the U.S. Treasury accounts. For additional information, see Note 3, *Fund Balance with Treasury*.

1.L. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army WCF including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. There are no restrictions on cash. For additional information, see Note 4, *Cash and Other Monetary Assets*.

1.M. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history by aging category. In addition, any claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in Appendix 10 of the Treasury Financial Manual, Volume I, Part 2, Chapter 4700. For additional information, see Note 6, *Accounts Receivable, Net*.

The Army WCF records interest receivable as nonentity assets. Nonentity assets are not available for use in the Army WCF normal operations. For additional information, see Note 2, *Nonentity Assets*.

1.N. Direct Loans and Loan Guarantees

Not Applicable

1.O. Inventories and Related Property

On October 1, 2018, the Army WCF adjusted the value of certain inventory from moving average cost to deemed cost. However, the Army WCF use of deemed cost was not in accordance with SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* because Army WCF did not make an unreserved assertion that its inventory is presented fairly in accordance with U.S. GAAP. The Army WCF is implementing corrective actions to be able to make an unreserved assertion for inventory beginning balances in the future.

The Army WCF Inventory and Related Property is categorized as follows:

Inventory Held for Sale – This includes both consumable, non-reparable as well as reparable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method for inventory recorded after considering the deemed cost adjustment as of October 1, 2018 that is discussed above.

Inventory Held for Repair – This includes damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Army WCF values inventory held for repair using the direct method. SFFAS 3, *Accounting for Inventory and Related Property*, and Interpretation 7, *Items Held for Manufacture* require that inventory held for repair and resale reflects the accumulation of capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Raw Material – This includes material to be used in the IO mission. Raw material is valued using the moving average cost method.

Excess, Obsolete, and Unserviceable (EOU) – Excess inventory is inventory that exceeds management requirements to meet the Army WCF mission. Obsolete inventory is inventory that is no longer needed due to changes in technology, laws, customs, or operations. Unserviceable inventory is damaged inventory that is non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account.

Work in Process – Work in Process balances include (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost to repair) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

Operating Materiel and Supplies (OM&S) – OM&S includes stocked items to be used for equipment and facilities maintenance at the Industrial Operations sites. OM&S is valued at the moving average cost method. There are no restrictions on the use of OM&S. For additional information, see Note 8, *Inventory and Related Property, Net*.

1.P. Investments and Related Interest

The Army WCF does not currently have Investments in U.S. Treasury Securities.

1.Q. General Property, Plant and Equipment

Consistent with SFFAS 6, *Accounting for Property, Plant, and Equipment*, General Property, Plant and Equipment (General PP&E) assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Army WCF capitalization threshold. The Army WCF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Army WCF depreciates all General PP&E, other than Construction-in-Progress, on a straight-line basis over the estimated useful life. The Army WCF has not adopted SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, except for land and land rights. In accordance with SFFAS 50, paragraph 40.f.i, the Army WCF excludes land and land rights from its reported property, plant and equipment balances on the balance sheet. Instead, the Army WCF discloses acreage information and expenses acquisitions. The Army WCF is currently reporting known acquisition costs for Buildings, Structures, and Facilities; General Equipment; Software; Construction-In-Progress; and Leasehold Improvements.

The Army's WCF's General PP&E capitalization threshold is $250 thousand. With the exception of General Equipment, the $250 thousand capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. For General Equipment, the capitalization threshold was applied retroactively. All other Army WCF General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels of $100 thousand except for real property, which is $20 thousand, and are carried at their remaining net book value.

The Army follows the Office of the Under Secretary of Defense (Comptroller) Memorandum, "Real Property Financial Reporting Responsibilities Policy Update (FMP# 19-05)", which was effective October 1, 2019 and requires the financial reporting of real property to be the responsibility of the installation host instead of the previous policy that was based on the entity who uses 90% or more of the physical capacity of the asset and who is also responsible for the sustainment requirements.

For additional information, see Note 9, *General Property, Plant and Equipment, Net*.

1.R. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Army WCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Army WCF records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Army WCF as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. The Army WCF reports leases that do not meet the capital lease criteria as an operating lease and expenses lease payments when they become payable. The future minimum operating lease payments are based on amounts obtained from existing leases, General Services Administration (GSA) bills, and inter-service support agreements. For additional information, see Note 16, *Leases*.

1.S. Other Assets

Other assets include those amounts not reported elsewhere on the Army WCF's Balance Sheet. Other Assets include civil service employee pay advances, travel advances, and certain contract financing payments. The Army WCF reports payments made in advance of the receipt of goods and services as an asset on the Balance Sheet. The Army WCF recognizes an expense or asset when the related goods and services are received.

The Army WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Army WCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32 – *Contract Financing*, as authorized disbursements to a contractor before acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulation Supplement (DFARS) authorizes progress payments based on a percentage or a stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments, based on a percentage or stage of completion, are reported as Construction-in-Progress. For additional information, see Note 10, *Other Assets*.

1.T. Commitments and Contingencies

The SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Army WCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

The Army WCF discloses contingent losses when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The risk of loss and resultant contingent liabilities and disclosures for the Army WCF arises from pending or threatened litigation or claims and assessments due to events such as aircraft, vessel, and vehicle accidents; property or environmental damages; and contract disputes. For additional information, see Note 17, *Commitments and Contingencies*.

1.U. Military and Civilian Retirement Benefits

The Army WCF's actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and provided to the Army WCF at the end of each fiscal year (FY). The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims.

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

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Army WCF. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding. Assumptions related to Federal Employee and Veteran Benefits Payable are detailed in Note 13, *Federal Employee and Veteran Benefits Payable*.

1.V. Environmental and Disposal Liabilities (E&DL)

E&DL are estimated costs for the anticipated remediation, closure, and disposal costs resulting from the use of the Army's assets or operations. Consistent with SFFAS 5, *Accounting for Liabilities of the Federal Government* SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. Army WCF recognizes an anticipated environmental disposal liability when the general property, plant, and equipment is placed into service and the liability is probable and measurable.

Interpretation of SFFAS 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6* (Interpretation 9), requires component entities that report general PP&E should also recognize the associated E&DL cleanup costs. For additional information, see Note 14, *Environmental and Disposal Liabilities*.

1.W. Other Liabilities

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30.

The Army WCF also reports liabilities for accrued compensatory and annual leave for civilians when earned by the employee and is reduced as leave is taken. The balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. The Army WCF expenses sick leave when used and no liability is recognized because employees do not vest in these benefits.

SFFAS 51, *Insurance Programs*, established accounting and financial reporting standards for insurance programs. The Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to the Army WCF civilian employees; however, they are not required to participate. These programs include life, health, and long-term care insurance. OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The Army WCF has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

For additional information, see Note 15, *Other Liabilities*.

1.X. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include transfers in and out of assets that were not reimbursed.

1.Y. Treaties for Use of Foreign Bases

Not Applicable

1.Z. Fiduciary Activities

Not Applicable

1.AA. Subsequent Events

Not Applicable

1.BB. 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 as required by the OMB Circular A-136, *Financial Reporting Requirements*. 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 2021 Balance Sheet and the related footnotes was modified to be consistent with the FY 2022 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 Treasury Financial Manual (TFM), USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 6, *Accounts Receivable*, Net; Note 10, *Other Assets*; Note 11, *Liabilities Not Covered by Budgetary Resources*; Note 15, *Other Liabilities*; and Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*.

1.CC. Tax Exempt Status

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

Note 2. Nonentity Assets

As of September 30	2022	Restated 2021
(Amounts in thousands)		
1. Total Intragovernmental Assets	$ -	$ -
2. Other than Intragovernmental Assets		
A. Accounts Receivable	$ 387	$ 383
B. Total Other than Intragovernmental Assets	387	383
3. Total Nonentity Assets	387	383
4. Total Entity Assets	25,656,563	24,050,891
5. Total Assets	$ 25,656,950	$ 24,051,274

Information Related to Nonentity Assets

Assets are categorized as either entity or nonentity. Entity assets consist of resources that are available for use in the operations of the Army WCF. Nonentity assets are assets belonging to other entities for which the Army WCF maintains stewardship accountability and reporting responsibility. These assets are not available for the Army WCF's normal operations and are offset by liabilities to third parties to accurately reflect net position.

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

During FY 2022, Army WCF restated FY 2021 inventory by $35 million. An error occurred when earnings resulting from internal work performed between Army WCF activities were left unbilled at the end of FY 2021. As a result, the increase in the valuation of inventory and corresponding liabilities were not recorded on the financial statements. The impact of the restatement is reflected on the Army WCF's total entity asset balance.

Note 3. Fund Balance with Treasury

Status of Fund Balance with Treasury

As of September 30	2022	2021
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 3,156,298	$ 3,937,690
2. Obligated Balance not yet Disbursed	7,509,754	6,740,620
3. Non-FBwT Budgetary Accounts		
A. Unfilled Customer Orders without Advance	(5,961,220)	(5,503,178)
B. Contract Authority	(1,464,521)	(3,181,311)
C. Receivables and Other	(179,187)	(220,168)
D. Total Non-FBwT Budgetary Accounts	(7,604,928)	(8,904,657)
4. Total FBwT	$ 3,061,124	$ 1,773,653

The Treasury records cash receipts and disbursements on the Army WCF's behalf. Funds are available only for the purposes for which the funds were appropriated. The Army WCF's FBwT consists of both revolving and appropriated funds.

Status of Fund Balance with Treasury Definitions

The Status of FBwT table displays the reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means (Non-FBwT Budgetary Accounts). The total FBwT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not yet been obligated. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Non-FBwT Budgetary Accounts create budgetary resources and unobligated balances, but do not impact FBwT as there has been no receipt of funds. For the Army WCF, these Non-FBwT budgetary accounts include unfilled customer orders without an advance, reimbursements and other income earned-receivable, and contract authority.

Total FBwT does not include funds held as a result of allocation transfers received from other federal agencies. The Army WCF did not receive allocation transfers from other federal agencies for execution on their behalf or provide allocation transfers to other federal agencies.

The FBwT reported in the financial statements has been reconciled and adjusted to reflect the Army WCF's balance as reported by Treasury. Prior to adjustment, the differences between FBwT in the Army WCF's general ledgers and FBwT reflected in the Treasury accounts were attributable to transactions that have not been posted to the individual detailed accounts in the Army WCF's general ledger as a result of timing differences or the inability to obtain complete accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the Army WCF's general ledger accounts.

Note 4. Cash and Other Monetary Assets

As of September 30	2022	2021
(Amounts in thousands)		
1. Cash	$ 10,007	$ 15,948
2. Total Cash, Foreign Currency, & Other Monetary Assets	$ 10,007	$ 15,948

Cash includes unrestricted entity assets for collections on hand that were not deposited during the accounting period.

Note 5. Investments and Related Interest

Not Applicable

Note 6. Accounts Receivable, Net

As of September 30	2022		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 176,704	$ (337)	$ 176,367
2. Other Than Intragovernmental Receivables	$ 10,447	$ (2,571)	$ 7,876
3. Total Accounts Receivable	$ 187,151	$ (2,908)	$ 184,243

As of September 30	2021		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 180,789	$ (60)	$ 180,729
2. Other Than Intragovernmental Receivables	$ 8,066	$ (2,603)	$ 5,463
3. Total Accounts Receivable	$ 188,855	$ (2,663)	$ 186,192

Accounts receivable represent the Army WCF's claim for payment from other entities. Allowances for uncollectible accounts are based upon an analysis of the aging of accounts receivable, a debtor's ability to pay and payment history by aging category. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700. For FY 2022 and FY 2021, the Army WCF recognized $245 thousand and $1.6 million in bad debt expense (respectively).

Note 7. Loan Receivable, Net and Guarantee Liabilities

Not Applicable

Note 8. Inventory and Related Property, Net

As of September 30		2022		Restated 2021
(Amounts in thousands)				
1. Inventory, Net	$	20,204,639	$	19,771,161
2. Operating Materiel & Supplies, Net		6,225		5,478
3. Total Inventory and Related Property, Net	$	20,210,864	$	19,776,639

Inventory, Net

As of September 30	2022						
(Amounts in thousands)		Inventory, Gross Value		Revaluation Allowance		Inventory, Net	Valuation Method
Inventory Categories							
A. Inventory Held for Sale	$	12,326,554	$	-	$	12,326,554	MAC
B. Inventory Held for Repair		5,974,343		-		5,974,343	MAC
C. Raw Materiel		1,354,011		-		1,354,011	MAC
D. Work In Process		549,731		-		549,731	*SP/AC
E. Excess, Obsolete, and Unserviceable Inventory		552,006		(552,006)		-	NRV
F. Total Inventory	$	20,756,645	$	(552,006)	$	20,204,639	

As of September 30	Restated 2021						
(Amounts in thousands)		Inventory, Gross Value		Revaluation Allowance		Inventory, Net	Valuation Method
Inventory Categories							
A. Inventory Held for Sale	$	11,993,749	$	-	$	11,993,749	MAC
B. Inventory Held for Repair		5,663,058		-		5,663,058	MAC
C. Raw Materiel		1,376,613		-		1,376,613	MAC
D. Work In Process		737,741		-		737,741	*SP/AC
E. Excess, Obsolete, and Unserviceable Inventory		552,562		(552,562)		-	NRV
F. Total Inventory	$	20,323,723	$	(552,562)	$	19,771,161	

Legend for Valuation Methods:
MAC = Moving Average Cost NRV = Net Realizable Value
*SP/AC = Standard Price /Actual Cost
* WIP value reflects the standard price of the inventory item (less the estimated cost of repairs) and the repair costs incurred to date.

Operating Materiel and Supplies, Net

As of September 30	2022						
(Amounts in thousands)		Inventory, Gross Value		Revaluation Allowance		Inventory, Net	Valuation Method
1. OM&S Categories							
A. OM&S Held for Use	$	6,225		-	$	6,225	MAC
B. Total OM&S	$	6,225		-	$	6,225	

As of September 30	Restated 2021						
(Amounts in thousands)		Inventory, Gross Value		Revaluation Allowance		Inventory, Net	Valuation Method
1. OM&S Categories							
A. OM&S Held for Use	$	5,478		-	$	5,478	MAC
B. Total OM&S	$	5,478		-	$	5,478	

Legend for Valuation Methods:
MAC = Moving Average Cost

Inventory

The Army WCF Inventory and Related Property is categorized as follows:

Inventory Held for Sale includes both consumable, non-reparable as well as reparable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Army WCF values inventory held for repair using the direct method. SFFAS 3, *Accounting for Inventory and Related Property* and Interpretation 7, *Items Held for Manufacture* require that inventory held for repair and resale reflect all capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Excess, Obsolete, and Unserviceable (EOU) Inventory includes excess inventory that exceeds management requirements to meet the Army WCF mission; obsolete inventory, which is inventory that is no longer useful due to changes in technology, laws, customs, or operations; and unserviceable inventory, which is damaged, non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account. The Army WCF's FY 2022 $552 million carrying value of EOU is offset by a $552 million allowance balance to reflect no net realizable value.

Raw Material includes material to be used in the IO's mission. Raw material is valued using the moving average cost method.

Work in Process balances includes (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost of repairs) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

There are restrictions on the use, sale, and disposition of inventory classified as war reserve, which includes petroleum products, subsistence items, spare parts, and medical materiel. These reserves are set aside for use during times of war.

During FY 2022, Army WCF restated FY 2021 liabilities and inventory work in process by $35 million. An error occurred when earnings resulting from internal work performed between Army WCF activities were left unbilled at the end of FY 2021. As a result, the increase in the valuation of inventory work in process and corresponding liabilities were not recorded on the financial statements. This restatement corrects the $35 million understatement in the inventory work in process and liabilities and ensures offsetting reciprocal balances are maintained within intra-Army WCF buy/sale transactions.

Operating Materiel and Supplies

Operating Materiel and Supplies (OM&S) includes stocked items to be used for equipment and facilities maintenance at the IO sites. OM&S is valued using the moving average cost method. There are no restrictions on the use of OM&S.

Note 9. General Property, Plant and Equipment, Net

As of September 30	2022				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 3,701,768	(2,214,498)	1,487,270
B. Software	S/L	5	1,728,170	(1,610,922)	117,248
C. General Equipment	S/L	5 or 10	1,683,000	(1,367,885)	315,115
D. Construction-in-Progress	N/A	N/A	164,210	N/A	164,210
E. Leasehold Improvements	S/L	10	668	(635)	33
F. Total General PP&E			$ 7,277,816	(5,193,940)	2,083,876

As of September 30	2021				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 3,684,390	(2,146,377)	1,538,013
B. Software	S/L	5	1,705,686	(1,578,451)	127,235
C. General Equipment	S/L	5 or 10	1,611,486	(1,336,142)	275,344
D. Construction-in-Progress	N/A	N/A	220,279	N/A	220,279
E. Leasehold Improvements	S/L	10	668	(568)	100
F. Total General PP&E			$ 7,222,509	(5,061,538)	2,160,971

S/L = Straight Line NA = Not Applicable
*Service lives may be 15, 20, 35, 40, or 45 years

The Army WCF's General PP&E is comprised of buildings, structures, and facilities, software, general equipment, construction in progress, leasehold improvements, and other PP&E.

The DFARS authorizes progress payments based on a percentage or stage of completion only for construction of real property, alteration, or repair. Progress payments based on percentage or stage of completion are reported as construction-in-progress.

In accordance with SFFAS 50, *Establishing Balances for General Property, Plant, and Equipment*, paragraph 40.f.i, the Army WCF excludes land and land rights from its reported property, plant and equipment balances. Instead, the Army WCF discloses acreage information and expenses acquisitions. As of Q4 FY 2022, the Army WCF reports 203,220 acres of land and 88 acres of leased land, for a total of 203,308 acres in land and land rights. As of Q4 FY 2021, the Army WCF reported 207,366 acres of land and 91 acres of leased land, for a total of 207,457 acres in land and land rights. During FY 2022, there was a reduction of 4,146 acres of land due to ongoing data cleanup efforts. Additionally, during FY 2022 there was a decrease of 3 acres of leased land. See the Required Supplementary Information Section for more information.

Heritage Assets

For the Period Ended September 30	2022			
(physical count)	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	4,961	22	(17)	4,966

For the Period Ended September 30	2021			
(physical count)	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	4,950	11	-	4,961

Heritage Assets
The Army WCF has stewardship responsibilities for heritage assets that date not only from the military history of the land, but also from prior historic occupations. The Army WCF relies upon heritage assets such as historic buildings, for daily use in conducting mission activities. These buildings and structures are included on the balance sheet as multi-use heritage assets (capitalized and depreciated).

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2022 Army WCF Annual Financial Report.

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

Buildings and Structures
Buildings and Structures, including multi-use heritage assets, are listed on, or eligible for listing on, the National Register of Historic Places (NR) in accordance with Section 110, *National Historical Preservation Act*. The Army WCF reported 4,966 and 4,961 heritage buildings and structures as of FY 2022 and FY 2021, respectively.

Buildings and structures must be at least 50 years of age to be considered eligible for NR listing. During FY 2022, 22 assets were added after meeting the chronological threshold of 50 years old and meeting the NR eligibility requirements. Also, 17 assets were removed due to disposal.

Stewardship Land
Stewardship land is land and land rights owned by the Army WCF, but not acquired for, or in connection with items of General PPE. The Army WCF's stewardship land consists mainly of mission-essential land that was acquired for or in connection with items of General PP&E. As a result, stewardship land is not presented separately.

General PP&E, Net – Summary of Activity

As of September 30		2022		2021
(Amounts in thousands)				
1. General PP&E, Net beginning of year	$	2,160,971	$	2,222,487
2. Capitalized acquisitions		60,361		302,883
3. Dispositions		(1,030)		(167,620)
4. Transfers in/(out) without reimbursement		45,431		-
5. Revaluations (+/-)		155		-
6. Depreciation expense		(182,012)		(196,779)
7. General PP&E, Net end of year	$	2,083,876	$	2,160,971

*This table reflects estimates of the Army WCF's acquisitions and disposals of capital assets during the period. The Army WCF continues to work towards solidifying the accounting and reporting of this information.

Note 10. Other Assets

As of September 30		2022		2021
(Amounts in thousands)				
1. Total Intragovernmental Other Assets	$	-	$	-
2. Other Than Intragovernmental Other Assets				
A. Outstanding Contract Financing Payments	$	106,830	$	137,855
B. Advances and Prepayments		6		16
C. Subtotal		106,836		137,871
D. Less: Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	$	(106,836)	$	(137,871)
E. Net Other than Intragovernmental		-		-
3. Total Other Assets	$	-	$	-

Information Related to Other Assets

Outstanding Contract Financing Payments are a separate classification of advances and prepayments and reflect contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets.

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

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2022		Restated 2021
(Amounts in thousands)				
1. Intragovernmental Other Liabilities				
A. Other	$	33,726	$	28,642
B. Total Intragovernmental Other Liabilities	$	33,726	$	28,642
2. Other Than Intragovernmental Other Liabilities				
A. Federal employee and veteran benefits payable	$	177,504	$	174,652
B. Environmental and Disposal Liabilities		692,047		488,516
C. Other Liabilities		3,000		300
D. Total Other Than Intragovernmental Liabilities	$	872,551	$	663,468
3. Total Liabilities Not Covered by Budgetary Resources	$	906,277	$	692,110
4. Total Liabilities Covered by Budgetary Resources	$	689,293	$	636,218
5. Total Liabilities Not Requiring Budgetary Resources	$	10,007	$	15,948
6. Total Liabilities	$	1,605,577	$	1,344,276

Liabilities not covered by budgetary resources represent amounts owed without available budgetary authority to cover them. Liabilities that do not require the use of budgetary resources are covered by monetary assets that are not budgetary resources.

Intragovernmental Liabilities, Other, are unfunded FECA liabilities the Army WCF owes to the DOL for payments made by DOL to Army WCF beneficiaries totaling $33.7 million as of the end of FY 2022. As of the end of FY 2021, unfunded FECA liabilities were $28.6 million.

Federal Employee and Veteran Benefits Payable consists of the $177.5 million actuarial FECA benefits liability as of the end of FY 2022 and $174.7 million as of the end of FY 2021. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details and disclosures.

E&DL consists of the liabilities associated with the Army WCF that include disposal liabilities for operational assets. E&DL are not covered by Army WCF budgetary resources because all expenditures are funded by the Army GF. See Note 14, *Environmental and Disposal Liabilities*, for additional details and disclosures.

Other than Intragovernmental Liabilities, Other reflects a $3 million contingent liability for a material claim related to a *Fair Labor Standards Act* grievance with a probable possibility of loss.

In FY 2022 and FY 2021, Liabilities Not Requiring Budgetary Resources reflect liabilities for undeposited collections. In prior years, these amounts were reported as Liabilities Covered by Budgetary Resources.

The FY 2021 Total Liabilities Covered by Budgetary Resources and Total Liabilities balances have been restated to reflect the $35 million correction of error processed to recognize liabilities that were incurred but not previously recorded for internal work performed during FY 2021. See Note 28, *Restatements*, for more information.

Note 12. Federal Debt and Interest Payable

Not Applicable

Note 13. Federal Employee and Veteran Benefits Payable

As of September 30	2022		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 177,504	$ -	$ 177,504
B. Other	9,633	(9,633)	-
C. Total Other Benefits	$ 187,137	$ (9,633)	$ 177,504
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 187,137	$ (9,633)	$ 177,504
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 57,213	$ (23,487)	$ 33,726
4. Total Federal Employee and Veteran Benefits Payable	$ 244,350	$ (33,120)	$ 211,230

As of September 30	2021		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 174,652	$ -	$ 174,652
B. Other	4,396	(4,396)	-
C. Total Other Benefits	$ 179,048	$ (4,396)	$ 174,652
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 179,048	$ (4,396)	$ 174,652
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 51,694	$ (23,052)	$ 28,642
4. Total Federal Employee and Veteran Benefits Payable	$ 230,742	$ (27,448)	$ 203,294

SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits. This standard also provides guidance for selecting the discount rate and valuation date used in estimating these liabilities.

Federal Employees' Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period.

In FY 2021, the methodology for billable projected liabilities included, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2021 methodology also included adjustments to normalize the levels of payments in chargeback year 2021 because payment levels in 2021 were not representative of what could be expected to occur absent the pandemic. The FY 2022 methodology remained the same, except it omitted the pandemic-related adjustments to normalize the levels of payments.

DOL selected the Cost of Living Adjustment (COLA) factors, Consumer Price Index Medical (CPI-M) factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year. The FY 2022 and FY 2021 methodologies for averaging the COLA rates used OMB-provided rates and information obtained from the Bureau of Labor Statistics public release for CPI.

The actual rates for these factors for the charge back year (CBY) 2021 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPI-Ms used in the projection for various CBY were as follows:

CBY	COLA	CPI-M
2022	n/a	n/a
2023	3.37%	3.13%
2024	3.97%	3.62%
2025	4.10%	3.55%
2026	4.16%	3.84%
2027	3.91%	4.20%

[and thereafter]

The compensation COLAs and CPI-Ms used in the projections as of Q4 FY 2021 were as follows:

CBY	COLA	CPI-M
2021	n/a	n/a
2022	2.11%	2.74%
2023	2.48%	3.15%
2024	2.55%	3.56%
2025	2.62%	3.49%
2026	2.68%	3.79%

[and thereafter]

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2022 and FY 2021, respectively. Interest rate assumptions utilized for FY 2022 discounting were as follows:

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

Interest rate assumptions utilized for FY 2021 discounting were as follows:

Discount Rates
For wage benefits:
2.231% in year 1 and years thereafter;
For medical benefits:
2.060% in year 1 and years thereafter.

To test the reliability of the model, comparisons were made between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. The model has been stable and has projected the actual payments by agency reasonably well.

The American Rescue Plan Act, P.L. 117-2, section 4016, "Eligibility for Workers' Compensation Benefits for Federal Employees Diagnosed with COVID-19," mandated that the FECA Special Benefits Fund assume an unreimbursed liability (i.e., a liability that is not chargeable to the agencies) for approved claims of certain covered employees for injuries proximately caused by exposure to the novel coronavirus that causes COVID-19 (or another coronavirus declared to be a pandemic by public health authorities) while performing official duties during the covered exposure period. Pursuant to section 4016, these claims must be accepted on or after March 12, 2021 and through September 30, 2030 and cover benefits for disability compensation and medical services and survivor benefits. Accordingly, section 4016 future benefits are properly omitted from the table of Estimates of Total FECA Future Liabilities as of September 30, 2022.

Federal Health and Other Benefits

OPM, as the administrating agency for the Army WCF's life and other insurance programs covering civilian employees, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. The Army WCF has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer contributions are submitted to OPM.

Other Federal Employment Benefits

Other Benefits, Other consists of Employer Contributions and Payroll Taxes Payable, other than health, life and retirement benefits.

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

The Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet amount is consistent with the Intragovernmental Other Liabilities reported on the Note 13 Federal Employee and Veteran Benefits Current Liability line in Note 15. The reference is included here to demonstrate the summary balances align with the Army WCF's balance sheet. These balances include employer contributions and payroll taxes payable for health, life and retirement benefits and required FECA Reimbursements to the Department of Labor. The liabilities for the FECA reimbursement to the DOL represents balances due under the *Federal Employee Compensation Act*. This amount includes balances due in both FY 2023 and FY 2024 for both incurred and estimated costs.

Note 14. Environmental and Disposal Liabilities

As of September 30	2022	2021
(Amounts in thousands)		
1. Environmental Liabilities – Other Than Intragovernmental		
A. Other Accrued Environmental Liabilities – Non-BRAC		
1. Environmental Closure Requirements (Non-Asbestos)	$ 335,974	$ 140,332
2. Asbestos	356,073	348,184
2. Total Environmental and Disposal Liabilities	$ 692,047	$ 488,516

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

The Army WCF report for Environmental & Disposal Liabilities (E&DL) consists of only asset-driven liabilities (closure and disposal) for General PP&E. Event-driven liabilities caused by the release of contamination to the environment that require future cleanup are all covered under the Army GF. Asset-driven liabilities are the environmental closure and disposal costs incurred at the end of the asset's useful life. The Army WCF E&DL is reported in the following categories:

Environmental Closure Requirements
Asbestos

The Army WCF E&DL addresses asset-driven disposal liabilities for operational assets such as buildings (asbestos, lead-based paint, other environmental issues), underground storage tanks (USTs), aboveground storage tanks (ASTs), piping associated with storage tanks, landfills, Nuclear Regulatory Commission (NRC) Licensed commodities, and open burn/open detonation (OB/OD) areas.

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

Applicable Laws, Guidance and Regulations

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

Applicable laws and regulations addressing cleanup requirements include:

- *Toxic Substances Control Act* (TSCA)
- *Low-Level Radioactive Waste Act*
- *Resource Conservation and Recovery Act* (RCRA)
- *Asbestos Hazard Emergency Response Act* (AHERA)
- *Nuclear Regulatory Commission Regulation* (NUREG) – (e.g. NUREG 1757 - *Consolidated Decommissioning Guidance* and NUREG CR6477 - *Revised Analyses of Decommissioning Reference Non-Fuel-Cycle Facilities*)
- Federal Accounting Standards Advisory Board (FASAB) published Technical Bulletin (TB) 2006-1 (FASAB TB 2006-1), *Recognition and Measurement of Asbestos-Related Cleanup Costs* and Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities, and Installed Equipment*

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The General Fund Enterprise Business System (GFEBS) is the source of asset data used to develop the E&DL estimates for Army assets, except OB/OD, NRC licenses, and Resource Conservation Recovery Act (RCRA) Permitted Facilities. OB/OD units inventory which are developed using the Joint Ordnance Commanders Group report and supplemented by the Army's G-9 Environmental Quality (EQ) annual data call. The Director of Army Safety tracks the Army's Nuclear Regulatory Commission (NRC) License holders for radioactive materials. The United States Army Nuclear and Countering Weapons of Mass Destruction Agency (USANCA) tracks the Army's Nuclear reactor population.

Asset-driven liabilities for facility closures/disposal include the environmental costs associated with a building demolition. The environmental liability associated with facility closures are made up of the costs for asbestos and Other Regulated Materials (ORM). For asbestos, the costs include a cost for pre-demolition surveys and a cost for potential abatement. ORM covers all other environmentally regulated materials that would need to be removed and properly disposed as part of the building closure and the cost for the environmental survey. The historical costs to support the estimating model is taken from various sites located within the United States and updated annually. The costs for the historical contracted demolitions are leveraged to establish a Unit Cost Factor (UCF) for asbestos and ORM. UCFs are applied to asset inventory data to develop environmental closure liabilities. Environmental closure liabilities for individual building demolition will vary depending on location, so to account for such environmental related building closure liabilities are reported in aggregate and adjusted for area cost variations. The methodology is based on the September 30, 2015 Assistant Secretary of Defense (Energy, Installation and Environment) memo entitled, “Strategy for Environmental & Disposal Liabilities Audit Readiness”. On July 12, 1989, the Environmental Protection Agency (EPA) issued a final rule banning most asbestos-containing products. In 1991, this regulation was overturned by the Fifth Circuit Court of Appeals in New Orleans. As a result of the Court’s decision, the 1989 asbestos regulation only bans new uses of asbestos in products that would be initiated for the first time after 1989 and bans the following specific asbestos-containing products: flooring felt, rollboard, and corrugated, commercial, or specialty paper.

The Army uses Remedial Action Cost Engineering and Requirements (RACER) modeling software to estimate the removal and disposal of asbestos wrappings on steam pipe lines. The model is contained within the RACER. Cost estimates for piping closure are developed considering asbestos abatement methodology and length of piping.

OB/OD are environmentally permitted treatment units used to destroy unserviceable, unstable, or unusable munitions and explosives. The Army utilizes RACER modeling software to capture closure requirements and determine the environmental liabilities.

RCRA permitted facilities are associated with the Treatment, Storage, Disposal Facility (TSDF) of hazardous materials/waste. These facilities are part of the Army’s industrial base where certain processes require treatment, storage, management, and/or disposal of hazardous materials/waste in a fashion that prevents accidental discharge to the environment. The Army utilizes RACER modeling software to capture closure requirements and determine the environmental liabilities.

The Army also uses RACER modeling software to estimate environmental disposal liabilities for aboveground and underground storage tanks and piping. Cost estimates for storage tank closure were developed considering the size of tank. RACER cost estimates are developed for various categories within the tank inventory. The length of the piping is used to calculate the piping estimate. The costs estimates are adjusted using area cost factors when reporting the tank/piping E&DL.

The Army uses RACER modeling software to estimate environmental closure liabilities for landfills. Permitted landfills closure liabilities are estimated within RACER using federal solid waste closure requirements. The future closure costs for operating landfills considers the type of landfill (e.g., hazardous waste or sanitary/municipal), construction and demolition debris (C&D)), acreage and location. The reported environmental liability also includes post-closure requirements.

The Army WCF reports E&DL for Army NRC license holders as a part of the asset-driven liabilities. Army NRC license holders are regulated under the Low-Level Radioactive Waste Act (LLRW), and LLRW disposal is conducted in accordance with U.S. NRC regulations. Engineering estimates, leveraging the regulation above, are used to develop the NRC license holder estimates.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General PP&E

Unrecognized cleanup costs are based on the remaining useful life allocated to future periods where the PP&E is in service. These costs are not included in the current liability reporting. The unrecognized costs amounted to $4.2 million as of FY 2022 compared to the $3.9 million reported as of FY 2021. The recognized amounts are included in the Environmental Closure Requirements over the useful life of the asset.

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

The Army WCF estimates are updated annually to reflect changes in previously unknown information, re-estimation based on different assumptions, price growth (inflation), increase in labor rates and materials, and lessons learned. Environmental liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advancements in technology.

All environmental liabilities as of FY 2022 and FY 2021 are stated in 2022 and 2021 dollars, respectively, as required by GAAP for federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

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

The E&DL for the Army are based on accounting estimates, which require certain professional judgments and assumptions that are believed to be reasonable based upon information available to the Army at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated.

The Army WCF has reported asbestos survey costs but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, per FASAB TB 2006-1, presents too much uncertainty to estimate. Friable asbestos abatement estimates are based on historical costs of asbestos abatement during facility demolition.

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

Note 15. Other Liabilities

As of September 30	2022		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Liabilities for Nonentity Assets	$ 387	$ -	$ 387
B. Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	38,229	18,984	57,213
C. Total Intragovernmental	$ 38,616	$ 18,984	$ 57,600
2. Other Than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 211,266	$ -	$ 211,266
B. Liability for non-fiduciary deposit funds and undeposited collections	10,007	-	10,007
C. Contract Holdbacks	55	-	55
D. Contingent Liabilities	-	3,000	3,000
E. Total Other Than Intragovernmental Other Liabilities	$ 221,328	$ 3,000	$ 224,328
3. Total Other Liabilities	$ 259,944	$ 21,984	$ 281,928

As of September 30	2021		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Liabilities for Nonentity Assets	$ 383	$ -	$ 383
B. Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	33,036	18,658	51,694
C. Total Intragovernmental	$ 33,419	$ 18,658	$ 52,077
2. Other Than Intragovernmental			
A. Accrued Funded Payroll and Leave	$ 212,493	$ -	$ 212,493
B. Liability for non-fiduciary deposit funds and undeposited collections	15,948	-	15,948
C. Contract Holdbacks	452	-	452
D. Contingent Liabilities	-	300	300
E. Total Other Than Intragovernmental Other Liabilities	$ 228,893	$ 300	$ 229,193
3. Total Other Liabilities	$ 262,312	$ 18,958	$ 281,270

Intragovernmental

Liabilities from Nonentity Assets

Intragovernmental Liabilities from Nonentity Assets represent liabilities for collections reported as non-exchange revenues for which the Army WCF is acting on behalf of another Federal entity. Army WCF collects interest payments, penalties, and administrative fees from both individuals and organizations that are remitted to U.S. Treasury.

Federal Employee and Veteran Benefits Payable

See Note 13, *Federal Employee and Veteran Benefits Payable*, for disclosures regarding amounts reported on line 1.B.

Other Than Intragovernmental

Accrued Funded Payroll and Leave

Accrued funded payroll and leave represents the estimated amount of liability for salaries, wages, and funded annual leave that has been earned but not yet paid.

Liability for Non-fiduciary Deposit Funds and Undeposited Collections

Liability for Non-fiduciary Deposit Funds and Undeposited Collections represent liabilities for receipts held in suspense temporarily.

Contract Holdbacks

Contract holdbacks consist of amounts withheld from payments to contractors to assure compliance with contract terms.

Contingent Liabilities

Contingent liabilities include the accrual of various legal actions for which the Army Office of General Counsel considers an adverse decision probable and the amount of loss measurable. See Note 17, *Commitments and Contingencies*.

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

As of September 30	2022	2021
(Amounts in thousands)		
A. Intragovernmental	$ 738	$ 2,423
B. Other than Intragovernmental	70,868	70,787
Total Advances from Others and Deferred Revenue	$ 71,606	$ 73,210

Advances from Others and Deferred Revenue

Advances from Others represent liabilities for collections received from the customer to cover Army WCF's future expenses incurred or assets acquired related to fulfillment and delivery of the respective goods or services.

Note 16. Leases

Operating Leases

As of September 30 *(Amounts in thousands)*	2022 Land and Buildings	Equipment	Other	Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2023	$ -	$ -	$ 15,804	$ 15,804
2024	-	-	16,231	16,231
2025	-	-	16,302	16,302
2026	-	-	16,373	16,373
2027	-	-	16,459	16,459
After 5 years	-	-	82,747	82,747
Total Intragovernmental Future Lease Payments Due	$ -	$ -	$ 163,916	$ 163,916
2. Other Than Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2023	$ 8	$ -	$ -	$ 8
2024	8	-	-	8
2025	9	-	-	9
2026	9	-	-	9
2027	10	-	-	10
After 5 years	86	-	-	86
Total Other Than Intragovernmental Future Lease Payments Due	$ 130	$ -	$ -	$ 130
3. Total Future Lease Payments	$ 130	$ -	$ 163,916	$ 164,046

As of September 30 *(Amounts in thousands)*	2021 Land and Buildings	Equipment	Other	Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2022	$ -	$ -	$ 12,990	$ 12,990
2023	-	-	13,252	13,252
2024	-	-	13,331	13,331
2025	-	-	13,395	13,395
2026	-	-	13,479	13,479
After 5 years	-	-	21,070	21,070
Total Intragovernmental Future Lease Payments Due	$ -	$ -	$ 87,517	$ 87,517
2. Other Than Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2022	$ 8	$ -	$ -	$ 8
2023	8	-	-	8
2024	8	-	-	8
2025	9	-	-	9
2026	9	-	-	9
After 5 years	121	-	-	121
Total Other Than Intragovernmental Future Lease Payments Due	$ 163	$ -	$ -	$ 163
3. Total Future Lease Payments	$ 163	$ -	$ 87,517	$ 87,680

The future non-cancelable operating lease amounts presented for Army WCF include estimates for land and other leases. Other leases include GSA motor vehicles leases. The GSA motor vehicle future lease payments are based upon FY 2022 and FY 2021 annualized activity levels for motor vehicles obtained for indefinite assignment under the GSA Interagency Fleet Management System (IFMS) program (Federal Property Management Regulation Section 101-39.204). The land lease includes 2.13 acres of land to construct, operate, and maintain railroad track/facilities. The land lease renews yearly with options until June 30, 2036 and restricts usage to only railway related activities.

Note 17. Commitments and Contingencies

Nature of Contingency

The Army WCF is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the Treasury Judgment Fund. In most cases, the Army WCF does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the *Contracts Disputes Act* or the *No FEAR Act*.

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote.

During FY 2022, Army WCF accrued a $3 million contingent liability for a material claim related to a *Fair Labor Standards Act* grievance with a probable possibility of loss.

In addition, the Army WCF had an estimated range of loss between $457 thousand and $13.7 million related to overtime grievances where the possibility of loss is considered reasonably possible.

During FY 2021, The Army WCF accrued a $300 thousand contingent liability for a material claim related to the same *Fair Labor Standards Act* grievance since the possibility of loss was considered probable. Additionally, there was, an estimated range of loss from $300 thousand to $3 million related to that claim.

During FY 2021, the Army WCF had an estimated range of loss from $200 thousand to $2 million related to overtime grievances considered reasonably possible.

Summary of Legal Contingent Liabilities			
As of September 30, 2022	Estimated Range of Loss		
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Reasonable Possible	-	$457	$13,655
Probable	$3,000	$3,000	$3,000

Summary of Legal Contingent Liabilities			
As of September 30, 2021	Estimated Range of Loss		
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Reasonable Possible	-	$200	$2,000
Probable	$300	$300	$3,000

As of Q4 FY 2022 and FY 2021, other legal claims existed for which the estimated loss amount or the range of loss could not be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect the Army WCF's financial position or results of operation.

Note 18. Funds from Dedicated Collections

Not Applicable

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

For the Period Ended September 30	2022			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2022 Consolidated
Operations, Readiness & Support				
1. Program Costs				
A. Gross Costs	$ 4,851,205	$ 10,997,349	$ (1,411,429)	$ 14,437,125
B. (Less: Earned Revenue)	(3,957,636)	(12,626,694)	1,397,955	(15,186,375)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes	893,569	(1,629,345)	(13,474)	(749,250)
D. Net Program Costs Including Assumption Changes	893,569	(1,629,345)	(13,474)	(749,250)
2. Net Cost of Operations	$ 893,569	$ (1,629,345)	$ (13,474)	$ (749,250)

For the Period Ended September 30	2021			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2021 Consolidated
Operations, Readiness & Support				
1. Program Costs				
A. Gross Costs	$ 5,035,792	$ 13,491,075	$ (1,678,272)	$ 16,848,595
B. (Less: Earned Revenue)	(4,370,359)	(13,383,447)	1,679,917	(16,073,889)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes	665,433	107,628	1,645	774,706
D. Net Program Costs Including Assumption Changes	665,433	107,628	1,645	774,706
2. Net Cost of Operations	$ 665,433	$ 107,628	$ 1,645	$ 774,706

Information Related to the Statements of Net Cost

The Statements of Net Cost (SNC) represents the net cost of programs and organizations of the Army WCF that are supported by spending authority, appropriations, or other resources. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Army WCF's current process and systems capture costs of its IO and SMA activities. Earned Revenue during FY 2022 was $15.2 billion and is presented net of $1.34 billion in material returns. Earned Revenue for FY 2021 is $16.1 billion and presented net of $800.6 million in material returns.

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

Information Related to the Statement of Changes in Net Position

Cumulative Results of Operations, Other reflects the offset of interest revenue reported on Cumulative Results of Operations Non-Exchange Revenue that will be remitted to Treasury upon collection.

Note 21. Disclosures Related to the Statement of Budgetary Resources

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance brought forward, October 1 represents the total of Recoveries of prior year unpaid obligations and Other changes in unobligated balance, together impacting the Obligated balance, end of the prior year and brought forward, October 1, as reported.

During FY 2022, as a result of ongoing audit readiness initiatives, the Army WCF removed prior year unsupported budgetary balances from its Statement of Budgetary Resources. This entry resulted in a $1.1 billion reduction to both the "Unobligated Balance from Prior Year Budget Authority, Net" and "Apportioned, Unexpired Accounts" lines of the current year column of the statement of budgetary resources.

During FY 2022, the Army WCF corrected a $35 million understatement in its delivered orders unpaid to recognize liabilities that were incurred but not previously recorded for internal work performed during FY 2021. The movement between undelivered and delivered orders had an offsetting impacting on the Army WCF's FY 2022 brought forward unobligated balance in the current year column of the Statement of Budgetary Resources.

Terms of Borrowing Authority Used

The Army WCF has no borrowing authority.

Available Borrowing / Contract Authority, End of Period

The Army WCF has no borrowing or contract authority as of the end of FY 2022.

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30	2022		2021	
(Amounts in thousands)				
1. Intragovernmental:				
A. Unpaid	$	3,532,437	$	3,340,258
B. Prepaid/Advanced		-		-
C. Total Intragovernmental	$	3,532,437	$	3,340,258
2. Other Than Intragovernmental:				
A. Unpaid	$	3,315,573	$	2,806,152
B. Prepaid/Advanced		106,836		137,871
C. Total Other Than Intragovernmental	$	3,422,409	$	2,944,023
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	6,954,846	$	6,284,281

Intra-entity Transactions

The Army WCF SBR includes intra-entity transactions because the statements are presented as combined.

Legal Arrangements Affecting the Use of Unobligated Balances

The Army WCF has no legal arrangements that affect the use of unobligated balances of budgetary authority.

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

There are no material differences between the prior year amounts reported on the Army WCF SBR and actual FY 2021 amounts on the Budget of the U.S. Government. The Budget of the U.S. Government with the actual amounts for FY 2022 will be available at a later date on the OMB website.

Contributed Capital

The Army WCF does not have contributed capital.

Note 22. Disclosures Related To Incidental Custodial Collections

Not Applicable

Note 23. Fiduciary Activities

Not Applicable

Note 24. Reconciliation of Net Cost to Net Budgetary Outlays

The Reconciliation of Net Cost to Net Budgetary Outlays demonstrates the relationship between the Army WCF's Net Cost of Operations, reported on an accrual basis, and Net Outlays, reported on a budgetary basis. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Army WCF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the Army WCF. Outlays are payments to liquidate an obligation.

The FY 2021 reconciliation was modified to conform to the FY 2022 presentation.

Miscellaneous Reconciling Items, Other include the net impact of intragovernmental transfers. This line item is required to adjust the change in net assets for the transfers that do not result in a budgetary outlay and are not reflected in the Statements of Net Cost.

The FY 2021 Change in Inventory and Accounts Payable line items on Note 24 have been restated to reflect the correction of error processed to recognize inventory and related liabilities that were incurred but not previously recorded for internal worked performed. See Note 28, *Restatements*, for more information.

The federal column for the FY 2021 schedule was also restated to remove intra-Army WCF activity.

As of September 30,	2022		
(Amounts in thousands)	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	$ (7,598,771)	$ 6,849,521	$ (749,250)
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General property, plant, and equipment, net	$ -	$ (77,096)	$ (77,096)
3. Change in inventory and related property, net	-	434,226	434,226
4. Increase/(decrease) in assets:			
a. Accounts receivable, net	(4,361)	2,413	(1,948)
b. Other assets	-	(36,975)	(36,975)
5. (Increase)/decrease in liabilities:			
a. Accounts payable	39,473	(90,103)	(50,630)
b. Environmental and disposal liabilities	-	(203,531)	(203,531)
c. Benefits due and payable	-	-	-
d. Federal employee and veteran benefits payable	-	(8,088)	(8,088)
e. Other liabilities	(3,838)	4,784	946
6. Financing sources:			
a. Imputed cost	(153,204)	-	(153,204)
7. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (121,930)	$ 25,630	$ (96,300)
Components of Net Budgetary Outlays Not Part of Net Cost			
8. Total Components of Net Budgetary Outlays Not Part of Net Cost	$ -	$ -	$ -
Miscellaneous Reconciling Items			
9. Transfers (in)/out without reimbursements	$ 57,790	$ -	$ 57,790
10. Other	-	-	-
11. Total Other Reconciling Items	$ 57,790	$ -	$ 57,790
12. Total Net Outlays	$ (7,662,911)	$ 6,875,151	$ (787,760)
13. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$ (787,760)
14. Unreconciled Difference			$ -

As of September 30,	Restated 2021		
(Amounts in thousands)	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	$ (7,585,736)	$ 8,360,442	$ 774,706
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General property, plant, and equipment, net	$ -	$ (61,516)	$ (61,516)
3. Change in Inventory and related property, net	-	7,644	7,644
4. Increase/(decrease) in assets:			
a. Accounts receivable, net	(60,540)	(7,579)	(68,119)
b. Other assets	-	(1,770)	(1,770)
5. (Increase)/decrease in liabilities:			
a. Accounts payable	(7,307)	120,765	113,458
b. Environmental and disposal liabilities	-	13,213	13,213
c. Benefits due and payable	-	-	-
d. Federal employee and veteran benefits payable	-	8,389	8,389
e. Other liabilities	451	31,156	31,607
6. Financing Sources:			
a. Imputed cost	(159,027)	-	(159,027)
7. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (226,423)	$ 110,302	$ (116,121)
Components of Net Budgetary Outlays Not Part of Net Cost			
8. Total Components of Net Budgetary Outlays Not Part of Net Cost	$ -	$ -	$ -
Miscellaneous Reconciling Items			
9. Transfers (in)/out without reimbursements	$ 98,552	$ -	$ 98,552
10. Other	-	(106,666)	(106,666)

As of September 30,	Restated 2021					
(Amounts in thousands)	Federal		Non-Federal		Total	
11. Total Other Reconciling Items	$	98,552	$	(106,666)	$	(8,114)
12. Total Net Outlays	$	(7,713,607)	$	8,364,078	$	650,471
13. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)					$	650,471
14. Unreconciled Difference					$	-

Note 25. Public-Private Partnerships

Public-Private Partnerships are defined as "risk-sharing arrangements or transactions lasting more than five years between public and private sector entities." SFFAS 49, *Public-Private Partnerships* establishes disclosure requirements. The Army WCF has assessed its agreements and has not identified any Public-Private Partnerships to date.

Note 26. Disclosure Entities and Related Parties

Not Applicable

Note 27. Security Assistance Accounts

Not Applicable

Note 28. Restatements

During FY 2022, Army restated FY 2021 liabilities and the value of inventory by $35 million. An error occurred when earnings resulting from internal work performed between Army WCF activities were left unbilled at the end of FY 2021. As a result, the increase In the valuation of inventory and corresponding liabilities were not recorded on the financial statements. This restatement corrects the $35 million understatement of inventory and liabilities and ensures offsetting reciprocal balances are maintained within intra-Army WCF buy/sale transactions.

Note 29. COVID-19 Activity

During FY 2022, the Army WCF has no new budgetary resources or unobligated balances for COVID-19 activity. However, the COVID-19 pandemic resulted in delays in the supply chain which created operational challenges and impacted outputs during the fiscal year.

Note 30. Subsequent Events

The Army WCF does not have subsequent events as of November 8, 2022.

Note 31. Reclassification of Financial Statement Line Items for Financial Report Compilation Process

Not Applicable

Department of Defense — Army Working Capital Fund

Schedule of Disaggregated Budgetary Resources

For the Periods Ended September 30, 2022 and 2021

Amounts in thousands	Industrial Operations	Supply Management Activities	Component	2022 Combined	2021 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 3,300,144	$ 83,708	$ -	$ 3,383,852	$ 5,550,090
Appropriations (discretionary and mandatory)	141,935	357,776	-	499,711	310,612
Contract Authority (discretionary and mandatory)	57,394	6,504,206	-	6,561,600	4,219,784
Spending Authority from offsetting collections (discretionary and mandatory)	3,789,480	9	-	3,789,489	4,093,549
Total Budgetary Resources	$ 7,288,953	$ 6,945,699	$ -	$ 14,234,652	$ 14,174,035
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 4,544,046	$ 6,534,309	$ -	$ 11,078,355	$ 10,236,345
Unobligated balance, end of year:					
Apportioned, unexpired accounts	2,744,907	411,390	-	3,156,297	3,937,690
Unexpired unobligated balance, end of year	2,744,907	411,390	-	3,156,297	3,937,690
Unobligated balance, end of year (total)	2,744,907	411,390	-	3,156,297	3,937,690
Total Budgetary Resources	$ 7,288,953	$ 6,945,699	$ -	$ 14,234,652	$ 14,174,035
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	327,850	(1,115,753)	143	(787,760)	650,471
Agency Outlays, net (discretionary and mandatory)	$ 327,850	$ (1,115,753)	$ 143	$ (787,760)	$ 650,471

Deferred Maintenance

Department of Defense — Army Working Capital Fund

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

For the Years Ended September 30, 2022 and 2021

(In Millions)	Fiscal Year 2022			Fiscal Year 2021		
Property Type	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/ Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/ Plant Replacement Value)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$16,055	$2,678	17%	$14,716	$1,743	12%
Category 2: Buildings Structures, and Linear Structures (Heritage Assets)	$8,965	$1,900	21%	$8,101	$762	9%
Inactive Real Property						
Category 3: Building, Structures, and Linear Structures (Excess Facilities or Planned for Replacement	$1,025	$213	21%	$715	$136	19%

Per DoD Financial Management Regulation 7000 14-R (March 2020), Volume 6B, Chapter 12, the Army's deferred maintenance estimates for FY 2022 and FY 2021 include all facilities in which DoD has ownership interest under the control of the Army and are not funded for Sustainment by another service, Non-Appropriated Funds, commissary surcharges or non-DoD sources. Assets that are fully disposed, damaged beyond repair, obsolete or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings/Facility Condition Index reported in Installation Status Report (ISR) during fourth quarter FY 2022 and FY 2021 and obtained by inspection or application of business rules described below. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x plant replacement value (PRV)

Q-ratings are determined by the ISR for non-building facilities using inspection or business rules. The Army transitioned to the Sustainment Management System (SMS) – BUILDER to report building conditions for the majority of buildings. BUILDER condition ratings for approximately 61,000 were migrated into ISR for FY 22. During the BUILDER/ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: 95 if the facility is no more than 5 years old; 85 if the facility is permanent or semi-permanent construction and between 5 and 15 years old; 70 if the facility is permanent or semi-permanent construction and more than 15 years old; 59 if the facility is temporary construction and more than 5 years old; 95 if the asset is a lease or privatized. For assets with a Non-Functional operational status, assigned Q-ratings are 100 if the asset is under full renovation, 59 if the asset is undergoing environmental repair, and 40 if the facility in not functional due to storm or other type of damage. An acceptable operating condition represents facilities with no deferred maintenance. Facilities of all ownership interests are included in the data set. Relocatable buildings are considered equipment and excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets Facilities that are Permanent or Semi-Permanent, with an Operational Status of "Active" or "Semi-Active" are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
  2. The asset is designated as a Heritage Asset
  3. A Disposal Completion Date is associated with the Asset
  4. A Disposal Reason Code is associated with the asset

- Category 2: Buildings, Structures, and Utilities that are Heritage Assets Facilities that are Permanent or Semi-Permanent, with an Operational Status of "Active" or "Semi-Active" and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
  2. A Disposal Completion Date is associated with the asset
  3. A Disposal Reason Code is associated with the asset

- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets Facilities with an Operational Status of "Caretaker", "Excess", "Non- Functional", "Outgrant", "Surplus" or "Closed" plus "Active" and "Semi-active" with a Disposal Reason Code plus "Active" and "Semi-active" with a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

Equipment Deferred Maintenance and Repair

The Army WCF's depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. In FY 2022, The Army WCF developed a methodology to identify deferred maintenance and repair requirements for its equipment using condition assessment surveys and life cycle cost forecasts. The Army WCF will continue to work to implement the policy and properly report the value of deferred maintenance and repair in FY 2023.

Land and Land Rights

In accordance with the Statement of Federal Financial Accounting Standards 59, *Accounting and Reporting of Government Land*, the Army WCF's estimated acreage of GPP&E land and stewardship land is presented in three predominant use subcategories: Conservation and Preservation Land, Operational Land, and Commercial Use Land.

Department of Defense — Army Working Capital Fund

ESTIMATED ACREAGE BY PREDOMINANT USE – GPP&E LAND AND PERMANENT LAND RIGHTS

For the Year Ended September 30, 2022

	Commercial	Conservation or Preservation	Operational	Total Estimated Acreage
Held for Use				
October 1, 2020	-	-	207,387	207,387
September 30, 2021	-	-	207,457	207,457
September 30, 2022	-	-	203,308	203,308
Held for Disposal or Exchange				
September 30, 2021	-	-	-	-
September 30, 2022	-	-	-	-

The acquisition and use of land is critical to the Army's mission to deploy, fight and win our nation's wars by providing ready, prompt and sustained land dominance by Army forces across the full spectrum of conflict as part of the joint force. This mission includes land, air, and marine operations to support the National Military Strategy. The Army's land provides an area for facilities, training ranges, housing, and transportation, including airfields. These ranges, transportation modes, and facilities are used to recruit, train, equip, and deploy the military, civilians, and contractors from other tenant organizations.

Army Land Policies

The Secretary of the Army (SecArmy) has real estate procurement and management authority under United States statutes. 10 USC § 2663(h), "Land Acquisition Authorities", establishes monetary authority levels for purchasing land. Funding for land purchases is authorized by Congress under the Military Construction (MILCON) appropriations. The Army operates under the Department of Defense Directive (DoDD) 4165.06, *Real Property and Army Regulation* (AR) 405-10, A*cquisition of Real Property and Interests Therein*, which establishes policy for land acquisition.

The disposal of land is governed by Department of Defense Instruction (DoDI) 4165.72, *Real Property Disposal*, and AR 405-90, *Disposal of Real Property*. The Army WCF may nominate excess land for disposal and submit a Report of Availability through the Army for approval and Congressional notification. Army-controlled real property in the United States that is excess to DoD requirements, and above dollar delegations outlined in Part 102–75, Subchapter C, Title 41, *Code of Federal Regulations* (41 CFR 102–75) *Federal Management Regulation* (FMR), will be reported to the General Services Administration (GSA) for disposal. The disposal process includes a check of requirements for the land by other DoD agencies and other Federal Agencies. If there is no government need, the GSA may sell it for commercial use or to a local government.

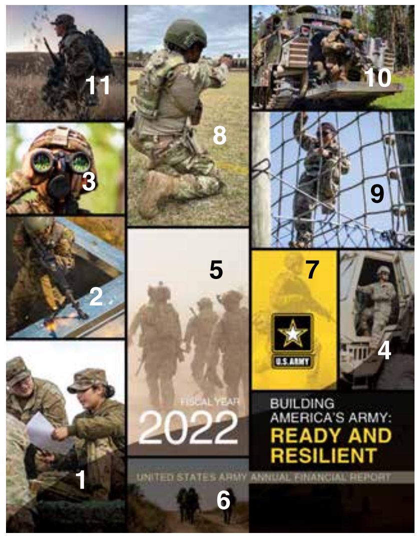

PHOTO CAPTIONS

1. Evaluating soldiers as part of a gunnery skills test. (U.S. Army photo by Sgt. Agustin Montanez)
2. An Army National Guard officer candidate participates in a simulated platoon raid and air extraction. (U.S. Army photo by Army Staff Sgt. Adeline Witherspoon)
3. A soldier assigned uses binoculars at an observation post during and exercise. (U.S. Army photo by Army Capt. Tobias Cukale)
4. A construction engineer completes her vehicle inspection. (U.S. Army photo by Sgt 1st Class Edwin Basa)
5. Soldiers through a sandstorm before a training exercise. (Photo by Air Force Staff Sgt. Thomas Johns)
6. Army snipers return to their area of operations after engaging targets during a live-fire exercise. (U.S. Army photo by Army Spc. Hedil Hernández)
7. An Army guardsman participates in a simulated platoon raid and air extraction. (U.S. Army photo by Staff Sgt. Adeline Witherspoon)
8. A soldier fires his pistol at a target during a small arms championship (U.S. Army photo by Sgt. 1st Class Javier Orona)
9. Obstacle course navigation during the Best Warrior and Best Squad Competition. (U.S. Army photo by Army Staff Sgt. Apolonia Gaspar)
10. Soldiers conduct live-fire exercises. (U.S. Army photo by Maj. Patrick Connelly)
11. Performing a security halt during a platoon-level simulated training exercise. (U.S. Army photo by Army Sgt. John Schoebel)

We are interested in your feedback regarding the content of this report. Feel free to e-mail your comments to AAFS@hqda.army.mil or write to:

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Office of the Financial Reporting Directorate
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THE SOLDIER'S CREED

I am an American Soldier.
I am a Warrior and a member of a team.
I serve the people of the United States and live the Army Values.
I will always place the mission first.
I will never accept defeat.
I will never quit.
I will never leave a fallen comrade.
I am disciplined, physically and mentally tough, trained and
proficient in my warrior tasks and drills.
I always maintain my arms, my equipment and myself.
I am an expert and I am a professional.
I stand ready to deploy, engage, and destroy the enemies of the
United States of America in close combat.
I am a guardian of freedom and the American way of life.
I am an American Soldier.