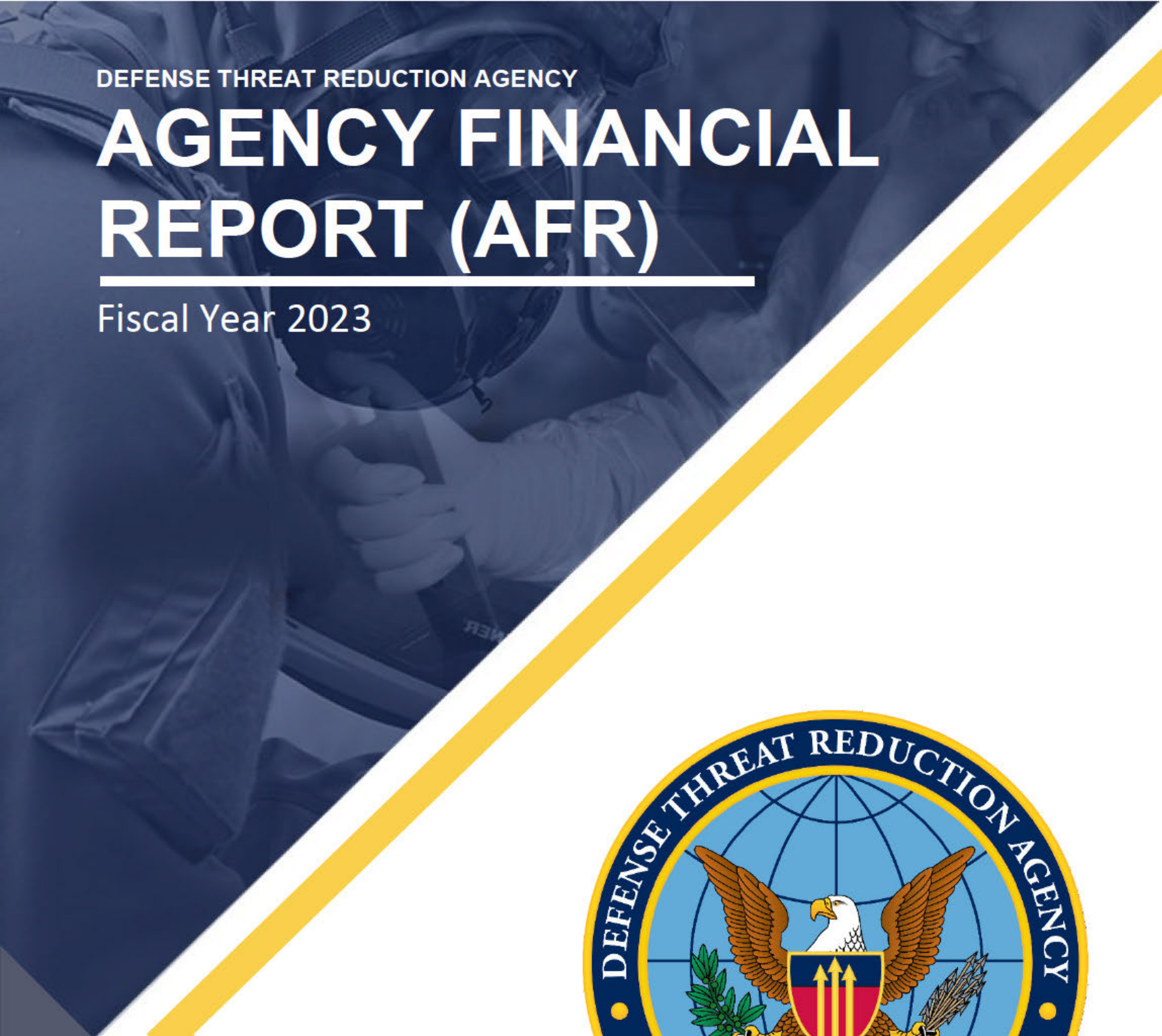
DEFENSE THREAT REDUCTION AGENCY

AGENCY FINANCIAL REPORT (AFR)

Fiscal Year 2023



7 November 2023

DETER. PREVENT. PREVAIL.

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MESSAGE FROM THE DIRECTOR

Defense Threat Reduction Agency

Message from the Director, Defense Threat Reduction Agency

As the Defense Threat Reduction Agency (DTRA) Director, I am pleased to present the Fiscal Year (FY) 2023 Agency Financial Report (AFR), as of September 30, 2023. The AFR financial statements and accompanying footnotes incorporate management discussion and analysis, performance, and financial sections that include the auditor's signed report. The AFR is prepared as directed by the Office of Management and Budget Circular A-136.

Deter, Prevent, and Prevail are keywords used to express our strategic priorities to deter strategic attack against the United States and our allies; prevent, reduce, and counter Weapons of Mass Destruction (WMD) and emerging threats; and prevail against WMD-armed adversaries in crisis and conflict. DTRA fully supports the Department's goal to achieve auditable financial statements. The Agency continuously strives to improve processes, enhance controls, and validate information. Audit is an enterprise-wide endeavor with the entire DTRA workforce engaging in day-to-day challenges to sustain our audit posture.

This year, our Independent Public Accounting (IPA) firm, Kearney & Company, issued a disclaimer of opinion on DTRA's financial statements. The IPA reported scope limitations in key areas involving receipt and acceptance, fund balance with treasury and aged obligation balances. Information obtained through this report will be valuable in our ongoing efforts to improve all aspects of DTRA's operations. DTRA conducted a self-assessment of risk and internal controls in compliance with OMB Circulars A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on Management's assessment, we can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2023, except for the three material weaknesses reported. DTRA's roadmap to an unmodified audit opinion in the foreseeable future is focused on process improvements, strengthened financial management, and improved monitoring and oversight. DTRA's efforts have increased accountability, communication, and support across all levels of the organization to better focus our attention and align resources to areas with the most critical need and potential impact.

As we close out DTRA's 25th Anniversary year, I am of proud of our legacy and our mission. In light of the current security environment, our mission has never been more important or urgent. We remain united in the confidence that our work matters – to our national security, to the well-being of our allies and partners around the world, and to the safety and security families and loved ones here at home.

Sincerely,

HERSMAN.REB
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Rebecca K.C. Hersman
Director

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Defense Threat Reduction Agency (DTRA) is pleased to present a Management Discussion and Analysis (MD&A) to accompany the financial statements and footnotes for its fiscal year (FY) 2023 Consolidated Financial Statements.

Mission and Organizational Structure

Mission

As both a Defense Agency and Combat Support Agency, the Defense Threat Reduction Agency (DTRA) provides cross-cutting solutions to enable the Department of Defense (DoD), the United States Government (USG), and international partners to deter strategic attack against the United States and its allies; Prevent, reduce, and counter Weapons of Mass Destruction (WMD) and emerging threats; and Prevail against WMD-armed adversaries in crisis and conflict.

Defense Agency

In this more strategic role, we reduce global WMD and emerging threats by deterring adversaries' acquisition and use of such materials.

We support key DoD policy and priorities through cross-service, DoD-wide programs such as nuclear assurance, treaty support, and building partner capacity.

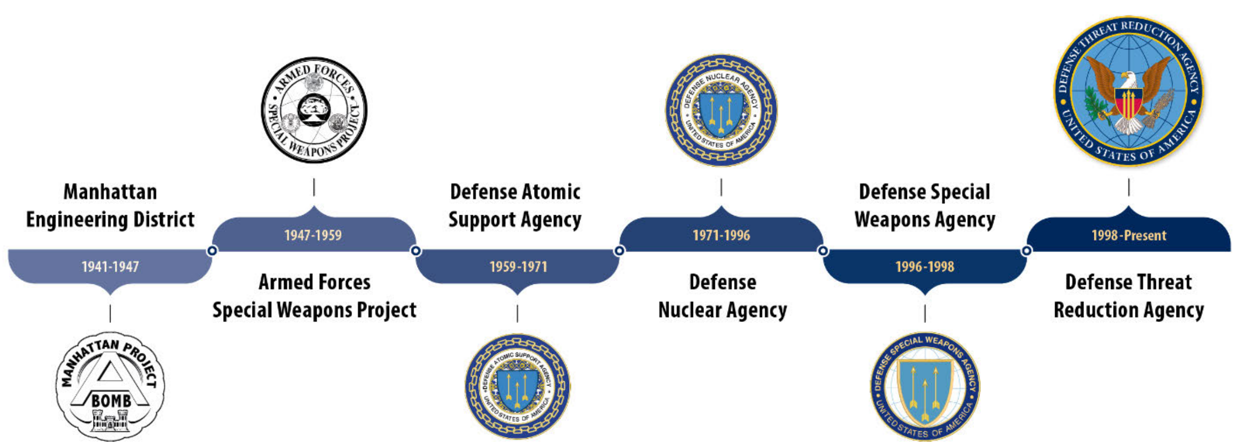
Combat Support Agency

In this more operational role, we work to identify, develop, and field solutions to counter WMD and emerging threats, leveraging unique capabilities and expertise in direct support of Joint Staff and Combatant Command requirements.

Our Legacy

DTRA traces its roots back to the Manhattan Project in 1942. A mission that began strictly as a weapons development program, expanded during the Cold War and eventually included non-nuclear weapons development nonproliferation efforts. The November 1997 Defense Reform Initiative joined the Defense Special Weapons Agency and the On-Site Inspection Agency with two defense programs: the Cooperative Threat Reduction Program (CTR) and Chemical-Biological Defense Program (CBDP), Science and Technology component, forming the core elements of the new agency. DTRA was formally established on October 1, 1998. Additionally, the Joint Improvised Defeat Organization joined DTRA in October 2016 and this department was later merged into DTRA's current Operations Integration Directorate.

Our History



An Agency defined by 80 years of evolution…that continues to evolve… to address the most consequential threats to our national security

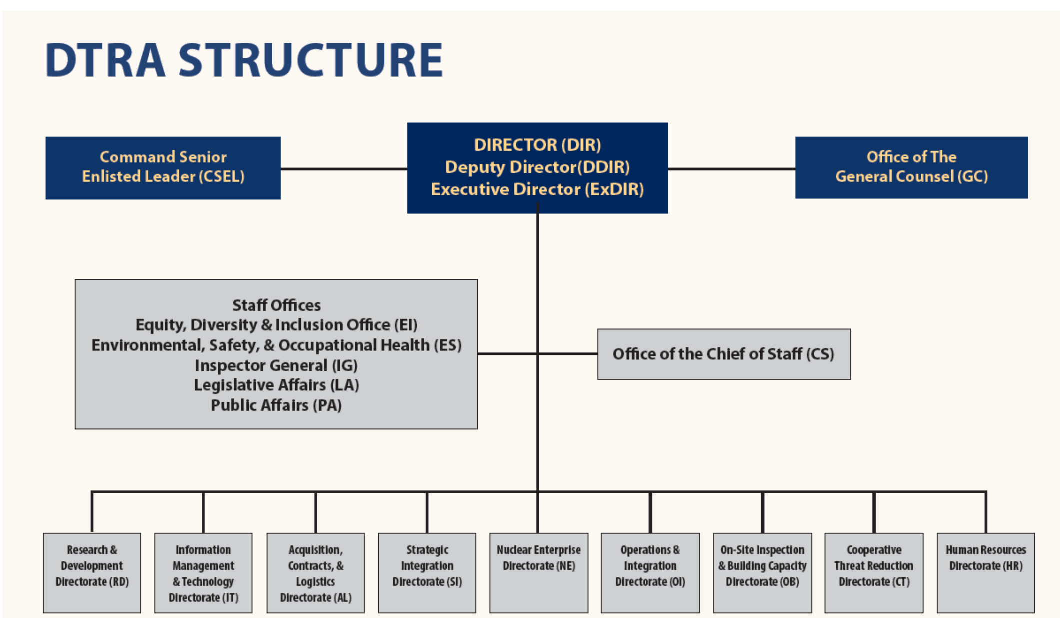
DTRA's rich legacy begins with the Manhattan Engineering District, later referred to simply as the "Manhattan Project," which was created to develop the world's first atomic bomb during World War II. Rooted in the success of the TRINITY nuclear test, the first detonation of an implosion-type plutonium device, the Atomic Age was born.

After the end of World War II, the Manhattan Project continued to support atomic weapons testing until the Atomic Energy Act of 1946 split the program into two parts—the Atomic Energy

Commission, known today at the Department of Energy (DOE), and the Armed Forces Special Weapons Project (AFSWP). The AFSWP, the military organization responsible for the aspects of the nuclear weapons remaining under military control after the split, was responsible for nuclear weapons maintenance, storage, surveillance, security, and transportation as well as conducting offensive and defensive military training in nuclear weapons operations and supporting nuclear tests.

As technology changes – as the United States National Security landscape changes – DTRA leads the way to Deter, Prevent and Prevail against WMD and Emerging Threats.

DTRA Leadership



DTRA Directorates

Research and Development Directorate - The Research and Development Directorate provides science, technology and capability development investments that maintain the U.S. military's technological superiority in countering weapons of mass destruction & emerging threats, mitigate the risks of technical surprise and respond to the warfighter's urgent technical requirements.

Strategic Integration Directorate - The Strategic Integration Directorate shapes DTRA's response to the challenges and priorities set forth in the National Defense Strategy, focusing the Agency's operations, activities, and investments in a manner that maximizes their cumulative effect in support of our warfighting customers.

Operations and Integration Directorate - The Operations and Integration Directorate provides operational, analytical, and security support for CCMD and DTRA missions in collaboration with Five Eyes (FVEY) and interagency partners to achieve strategic outcomes against National Defense Strategy (NDS) threats.

Information Management & Technology Directorate – The Information Management & Technology Directorate provides enabling and secure technologies, applications, and services anywhere and anytime, to our workforce, mission partners, and external customers to effectively deliver relevant data, information, and situational awareness to successfully perform the Countering Weapons of Mass Destruction and Emerging Threats mission.

Nuclear Enterprise Directorate - The Nuclear Enterprise Directorate provides capabilities to the Department of Defense and interagency stakeholders, allies, and partners to ensure the safety, security, reliability, and effectiveness of the U.S. nuclear deterrent force and the countering weapons of mass destruction mission.

Acquisition, Contracts, and Logistics Directorate - The Acquisition, Contracts, and Logistics Directorate provides responsive solutions in acquisition, contracting, facilities, and logistics to enable the accomplishment of the Agency's mission. The Directorate provides comprehensive, integrated, collaborative, and reliable business solutions that are cost effective and efficient to enable DTRA mission execution and Agency Priority accomplishment.

On-Site Inspection and Building Capacity Directorate - The On-Site Inspection and Building Capacity Directorate enables the Department of Defense, the U.S. Government, and International Partners to counter and deter WMD by conducting Arms Control Treaty Verification and Countering Weapons of Mass Destruction (CWMD) Building Partner Capacity Activities.

Cooperative Threat Reduction Directorate – The Cooperative Threat Reduction Directorate implements the DoD CTR Program by working with partner countries to prevent the proliferation of WMD and eliminate chemical, biological, radiological, and nuclear (CBRN) threats. CTR takes a layered approach: Eliminate, Secure, Detect and Interdict.

Human Resources Directorate – The Human Resources Directorate operates as a collaborative and strategic partner to acquire, develop and sustain a highly competitive and diverse workforce supporting the mission, vision, and values of DTRA.

Performance Goals, Objectives and Results

Agency Goals, Functions and Objectives

The *DTRA Director's Strategic Intent: 2022-2027* supports national-level guidance through DTRA-specific goals, functions, and objectives. The DTRA goals are the outcomes we seek to achieve as an Agency, while the Agency functions and objectives are the unique ways by which we achieve its Mission and goals. DTRA's goals cut across its many activities and capabilities, including nuclear security and surety; arms control and verification; cooperative threat reduction; building partner capacity; planning, training, and exercising; and developing capabilities.

Table 1 below represents DTRA's core functions and objectives, which underpin the Agency's strategic goals. DTRA's core functions contain many enduring tasks and responsibilities as well as new efforts and initiatives to account for rapidly evolving technological and operational challenges.

Table 1: *Goals, Functions and Objectives*

Strategic Goals:		
Deter Strategic Attacks	*Prevent, Reduce and Counter WMD and Threats*	*Prevail Against Adversaries*

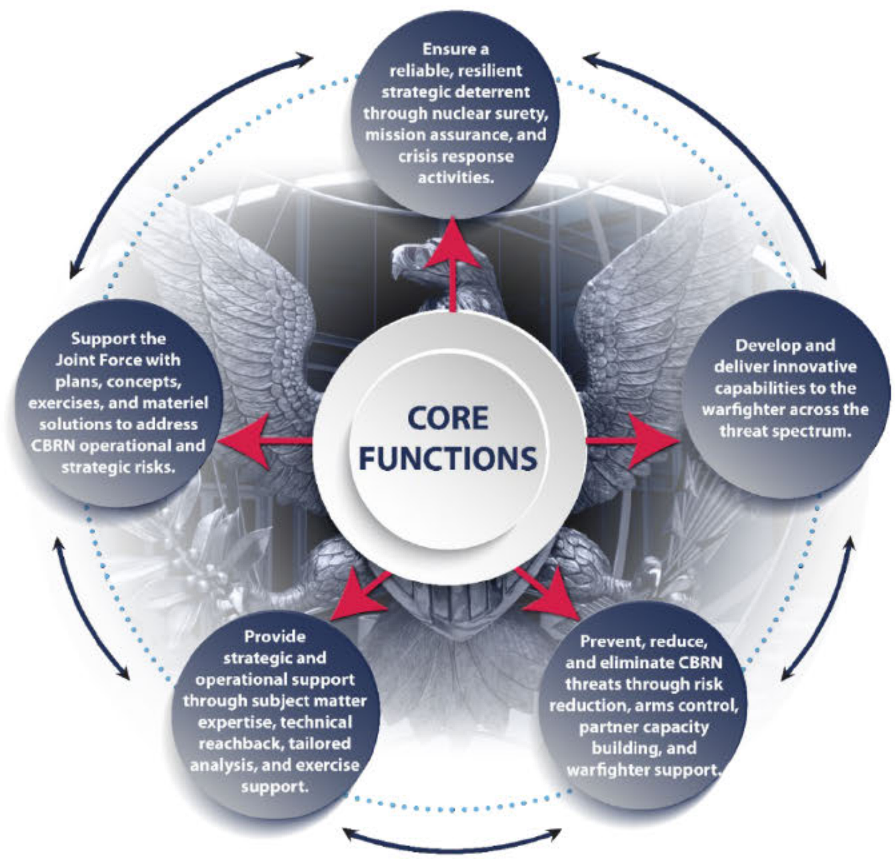
Core Functions:	***Strategic Objectives:***
1. Ensure a reliable, resilient strategic deterrent through nuclear surety, mission assurance, and crisis response activities	*1.1 Increase nuclear warfare planning support to improve the collective nuclear deterrence posture and resilience of the Joint Force, Allies, and partners.* *1.2 Coordinate efforts with appropriate partners to amplify messaging on the efficacy of our combined capabilities to plan, counter, respond to, and survive WMD threats.*
2. Develop and deliver innovative capabilities to the warfighter across the threat spectrum.	*2.1 Engage with Allies and partners for research outreach;* *2.2 Develop capabilities that increase situational awareness of adversarial WMD activities;* *2.3 Expand our capability, capacity, and preparedness to identify and characterize current and emerging WMD threats; and* *2.4 Improve U.S., ally, and partner abilities to counter, disrupt, or defeat adversary WMD infrastructure, modernization efforts, and capabilities.*

3. Prevent, reduce, and eliminate CBRN threats through risk reduction, arms control, partner capacity building, and warfighter support.	*3.1 Increase awareness of WMD risks, mitigation strategies, and vulnerabilities among Allies and partners to prevent, counter, and respond to adversarial WMD activities;* *3.2 Strengthen strategic stability by upholding international WMD-related norms and treaty obligations and expanding the capabilities of our partners to counter WMD threats;* *3.3 Improve U.S. relationships with regional and international partners to counter adversarial influence and disinformation campaigns; and* *3.4 Examine and improve USG readiness and ability to develop and implement future verification and risk reduction approaches, while protecting U.S. equities during and after negotiations.*
4. Provide strategic and operational support through subject matter expertise, technical reachback, tailored analysis, and exercise support.	*4.1 Prevent unintentional escalation across the spectrum of crisis and conflict by better understanding adversarial intent, doctrine, decision calculus, and emerging capabilities;* *4.2 Improve U.S., Ally, and partner capability and capacity to prevent the acquisition and proliferation of WMD-related materials, technology, and intellectual property;* *4.3 Through the authorities and funding of the Military Intelligence Program appropriated to the Agency and under the oversite of USD/I&S, strengthen collaboration with the Defense Intelligence Enterprise by providing insights related to WMD threats to support operational planning and execution;* *4.4 Improve transparency, confidence-building measures, and strategic messaging to strengthen U.S. influence and strategic stability;* *4.5 Develop tools that improve knowledge management, collaboration, and information sharing within the Agency and our partners; and* *4.6 Reinforce the culture and practice of integration across internal and external organizational boundaries.*
5. Support the Joint Force with plans, concepts, exercises, and materiel solutions to address CBRN operational and strategic risks.	*5.1 Enhance planning, development, and execution of risk-based integrated deterrence options to deter, disrupt, and deny pursuits within the adversary's WMD activity continuum;* *5.2 Conduct risk-informed planning and exercises that improve our ability to respond to a broad range*

	of WMD contingencies with flexible, integrated options; *5.3 Leverage novel technologies and approaches to enable the Joint Force to prepare for, deter, and defeat WMD use; and* *5.4 Anticipate future requirements and improve posture to achieve better and more sustainable effects.*

DTRA Functions

DTRA is committed to achieving concrete outcomes and strategic effects through its core functions. Directorates will implement improvements, refinements, and efficiencies to optimize execution in these critical mission areas.



1. ***Ensure a reliable, resilient strategic deterrent through nuclear surety, mission assurance, and crisis response activities.***

Potential adversaries view nuclear weapons as a means to seek coercive advantage, challenge the United States in crisis and conflict, and potentially decouple the United States from its allies. DTRA supports the U.S. nuclear deterrent through nuclear readiness and modernization, mission assurance, force preparedness and response, and treaty verification. The Agency enhances nuclear force resilience, expands nuclear operations expertise, and improves its capacity to implement current and future verification regimes. In an evolving and complex geopolitical environment, the Agency remains dedicated to maintaining a reliable strategic deterrent while increasing the resiliency of our Joint Force capabilities. DTRA leverages its considerable education, modeling, and assessment resources to ensure the Department's success in this no-fail mission.

2. ***Develop and deliver innovative capabilities to the warfighter across the threat spectrum.***

The Agency remains a key developer of capabilities to counter WMD threats. The DTRA's portfolio contains critical technologies that enable the Joint Force to disrupt, defeat, disable, and dispose of WMD and enhance deterrence against their potential use. Capabilities developed by the Agency address our intelligence community's hardest problem sets, Joint Force readiness, and the inspection and detection mechanisms that underpin international stability. As the preeminent science and technology leader across the CWMD enterprise, DTRA must maintain its place at the leading edge of innovation. DTRA employs research and development tools and expertise to create novel CWMD solutions and proactively engages with partners to transition these capabilities to the operational force. Enhanced information technology, AI-enabled data retrieval and management, and advanced visualization and decision-support capabilities augment the Agency's enduring detection, protection, and WMD defeat efforts.

3. ***Prevent, reduce, and eliminate CBRN threats through risk reduction, arms control, partner capacity building, and warfighter support.***

Cooperative threat reduction, treaty implementation and verification, and building partner capacity efforts, in collaboration with USG and international partners, improve DOD's ability to interdict WMD proliferation, secure vulnerable WMD materials and promote and implement effective arms control. By combining innovative technology with sustained engagement and security cooperation initiatives, DTRA enhances U.S. and partner nation abilities to mitigate the dangers posed by nuclear, chemical, and biological weapons, as well as advance delivery systems and other enabling technologies. The Agency continues to shape growth and stabilization across Cooperative Threat Reduction programs with a focus on developing sustainable capacity-building efforts that reinforce networks with allies and partners. DTRA also supports warfighter requirements to deny and disrupt adversaries from acquiring WMD materiel and delivery systems.

4. ***Provide strategic and operational support through subject matter expertise, technical reachback, tailored analysis, and exercise support.***

DTRA provides a wide range of expert support across operational and scientific disciplines, technologies, and materials to address threats posed by WMD, associated delivery systems, and enabling technologies.

DTRA supports the warfighter with tailored capabilities designed to enable operational CWMD missions. Agency subject matter experts, analysts, planners, and strategists examine the challenges of competition and conflict with WMD-capable adversaries and the means to overcome them. As part of the Defense Intelligence Enterprise, DTRA's intelligence support activities advance analysis and information-sharing efforts through thoughtful collaboration with community partners. External research efforts, table-top exercises, workshops, and other mechanisms help DTRA understand the future CBRN threat landscape to prepare for crisis or conflict related to WMD. DTRA's forward presence among DoD Combatant Commands and other key organizations ensures the Agency's efforts are fully integrated across DoD and broader USG. These efforts include a focus on exercise support tools, data visualization, and interactive platforms.

5. *Support the Joint Force with plans, concepts, exercises, and materiel solutions to address CBRN operational and strategic risks.*

Plans, concepts, and exercises enable DoD to prepare to deter and defeat WMD-armed adversaries. DTRA mitigates the risks and consequences of conflict by developing CWMD technical solutions, highlighting warfighting challenges and adversary vulnerabilities, and supporting DoD CWMD plans and exercises. The Agency provides the Joint Force, allies, and partners with unique insight into adversary WMD force posture, doctrine, and systems. In particular, DTRA examines how potential adversaries plan to employ and integrate WMD during conflict to inform concepts of operation and materiel solutions U.S. and allied forces need in a WMD battlespace.

Performance Measures and Outcomes

In accordance with the GPRA Modernization Act of 2010, the DTRA has established performance measures of its programs to evaluate Agency performance and improvement. The programs described below map to multiple core functions and strategic objectives described in the beginning of this section.

CYBER PROGRAMS

DTRA's Cyber programs strengthen support to the Nuclear Deterrent by providing visibility on mission assurance risk across the DoD enterprise; conducting integrated threat-based mission assurance assessments that provide risk mitigation strategies for Defense Critical Assets and Infrastructure; and executing assessments to test strategies to defend critical missions against emulated adversarial disruption.

Mission Assurance:
DTRA serves as a Mission Assurance Center of Excellence performing assessments that identify vulnerabilities in critical systems, networks, and architecture that could be exploited well below the level of armed conflict by state or non-state threat networks or could be impacted by natural or accidental hazardous events. This analysis is accomplished through the utilization of the Defense Critical Infrastructure Vulnerability Analysis process, which includes:

- Advanced Cyber Assessments: Consist of both "Blue" and "Red" audits, vulnerability assessments, and penetration tests that evaluate the strengths or weaknesses of software, hardware, processes, and channels over valuable DoD Information flows.

All assessments provide recommendations to mitigate identified risks to critical infrastructure. This analysis is narrowed to specific key missions identified by DoD leadership (most commonly, Defense Critical Missions) and through strategic analysis, identifies mission impacts, trends, and lessons learned. This information is provided to DoD senior leaders, who will then decide the best courses of action for vulnerability remediation, mitigation, or acceptance.

Table 2: *Cyber Assessment Metrics*

Type of Assessment	Number of Assessments FY 2023
Pre-site Surveys (Total)	104
Advanced Cyber Assessments	14
Red Team Cyber Assessments	38
Control System Assessments	12
Level I Cyber Assessments	40
Total Assessments	104
Customers	18

NON-PROLIFERATION ACTIVITIES, WMD COMBAT SUPPORT AND OPERATIONS AND CORE MISSION SUSTAINMENT PROGRAMS

DTRA establishes programs that support the Nuclear Enterprise, develop common situational awareness to inform global integrated operations, strategically leverage building partnership capacity to push back on foreign influence, and implement the President's arms control vision. These programs strengthen support to the Nuclear Deterrent by enabling nuclear weapons security through force-on-force tests and exercises; tracking all nuclear weapons to maintain positive control and support emergency verifications; providing visibility on mission assurance risk across the DoD enterprise; conducting integrated threat-based mission assurance assessments that provide risk mitigation strategies for Defense Critical Assets and Infrastructure; and executing assessments to test strategies to defend critical missions against emulated adversarial disruption.

Arms Control Treaties and Agreements:

As an essential element of nonproliferation efforts, arms control activities enhance confidence in treaty and agreement compliance through effective inspection, monitoring, and verification. The United States seeks to reduce the threat from WMD in a number of ways, particularly through treaty and non-treaty efforts to control, safeguard, and eliminate existing weapons and to verify and monitor compliance with agreements intended to prevent the proliferation of nuclear weapons. DTRA trains, equips, organizes, deploys, and exercises operational control over inspection, monitoring, and escort teams, ensuring the U.S. Government can exercise its full treaty rights for on-site inspection and protect U.S. treaty rights with respect to inspected sites or activities. DTRA also installs, operates, maintains, and sustains U.S. nuclear detonation verification and monitoring radionuclide and waveform stations as part of the U.S. contribution to the Comprehensive Nuclear-Test-Ban Treaty Organization's International Monitoring System. DTRA provides technical advice to U.S. Government elements concerned with developing, implementing, or evaluating compliance with arms control treaties and agreements. DTRA's inspectors provide the Secretary of Defense (SECDEF) with first-hand evidence that international commitments are fulfilled through the verifiable reduction of the world's stockpiles of nuclear, chemical, and conventional weapons (which includes the training and equipping of law enforcement and border guard personnel in the former Soviet Union, Eastern Europe, Baltics, Balkans, South Asia, Southeast Asia, and Africa). DTRA's arms control mission directly enhances U.S. security interests.

Table 3: *Treaty and Agreement Metrics*

Type of Mission	Number of Missions FY 2023
New Start Treaty	
Inspection Activity	0
Escort Activity	0
Mock Missions	15
Exhibitions	0
Plutonium Production Reactor Agreement	
Inspection Activity	0
Escort Activity	0
Mock Missions	1
Joint Implementation & Compliance Commission Discussions	0
International Atomic Energy Agency Integrated Safeguards	12

These efforts ensure: New START Treaty mandated limits of strategic arms are met; Russian plutonium producing reactors are shut down and Russian Federation produced Plutonium Oxide is accounted for; and U.S. facilities meet International Atomic Energy Agency Integrated Safeguards standards.

Table 4: *Conventional Weapons Metrics*

	Number of Missions
Type of Mission	FY 2023
Conventional Weapons	
Inspection Activity	24
Escort Activity	4
Mock Missions	11

These efforts contribute to the reduction of conventional arms stockpiles and reduced risk of conventional offensive strikes in Europe and to a more stable and calculable balance of world power.

Table 5: *Chemical Weapons Convention Metrics*

	Number of Missions
Type of Mission	FY 2023
Chemical Weapons Convention (CWC)	
Escort Activity	54
Mock Missions	1

These efforts aim to reduce chemical weapons (CW) stockpile. The United States has destroyed over 98 percent of its originally declared stockpile. The destruction of the remaining stockpile at Pueblo, Colorado, and Blue Grass, Kentucky, and daily treaty activity is projected to be complete by FY 2024. DTRA conducts on-site escort of Organization for the Prohibition of Chemical Weapons (OPCW) inspection teams and inspector rotations for both Pueblo (FY 2015-2024) and Blue Grass (FY 2019-2024) to accomplish treaty verification of the destruction of the CW stockpile. DTRA's other CWC escort activity workload includes systematic inspections of Pueblo and Blue Grass chemical weapons storage facilities, DoD Schedule 1 Facilities, and at least one recovered CW Destruction Facility inspection per year.

Table 6: *Treaty Support Metrics*

	Number of Events
Type of Mission	FY 2023
Treaty Support	
Language Training Events	17
Recruitment Events	16
Arms Control Treaty Training Events	16

This training is designed for newly assigned DTRA personnel and U.S. Government interagency partners who support on-site inspections, monitoring operations, escort activities, and observations to the specific arms control treaties for which DTRA is responsible. This program promotes openness and transparency in military activities while enhancing security through confidence and security building measures; promotes predictability and stability by reporting on the reduction and limitation of offensive strategic and conventional arms; and ensures CWC escorts and facilities are ready to accept OPCW Inspections to confirm U.S. compliance with the Chemical Weapons Convention.

Table 7: *Nuclear Assessments Metrics*

Type of Mission	Data Availability % FY 2023
International Monitoring System	
Seismic and Infrasound Stations	98%
Radionuclide Stations	98%

The Nuclear Arms Control Technology (NACT) operations mission provides for the management and operation of 32 U.S. waveform and radionuclide stations and the U.S. Radionuclide Analysis Laboratory, representing the majority of the U.S. International Monitoring System (IMS) stations in support of U.S. and DoD objectives. The program measures station performance annually through assessments against the key performance indicator, station data availability. Station data availability is the measure of time the stations are providing useable data to the Comprehensive Nuclear-Test-Ban Treaty (CTBT) International Data Centre. The sharing of data provides access to an additional 271 globally arrayed certified deployed CTBT monitoring stations and radionuclide laboratories, enhancing the United States' capability to detect proliferation of WMD. Access to this additional data increases U.S. confidence in locating, characterizing, and attributing nuclear explosions by gaining more measurements from locations closer to the source of the explosion.

WMD Combat Support and Operations

The demand for combat and warfighter support to the CCMDs continues to increase because of the threat of WMD attacks against the United States, its partners and interests, and U.S. counterterrorism operations. DTRA executes a number of programs within WMD Combat Support and Operations to provide combat and warfighter support to the Chairman, Joint Chiefs of Staff (CJCS), the Combatant Commanders, and Military Services as they engage the threat and challenges posed to the United States, its forces, and allies by any WMD to include chemical, biological, radiological, nuclear, and high-yield explosive weapons. DTRA supports the essential WMD response capabilities, functions, activities, and tasks necessary to sustain all elements of operating forces within their areas of responsibility at all levels of warfare – strategic, operational, and tactical. DTRA also supports DoD with programs that provide oversight for DoD nuclear matters; providing expert and responsive DoD nuclear mission support to the Office of the Secretary of Defense (OSD), Joint Staff, CCMDs, and the Military Services. DTRA successfully collaborates with the National Nuclear Security Administration and other interagency partners and programs, supporting the viability and credibility of the U.S. Strategic Deterrent, the forward deployed deterrent, and their transformation into the 21st century. Additionally, DTRA's operational programs are closely tied with its Research, Development, Test, and Evaluation programs that provide technical support to DoD components and other organizations in areas related to WMD and designated advanced weapons.

DTRA is continuing to enhance combat support missions to be dual-purposed, synergistic, and closely aligned with joint operational efforts, providing a foundation for transformational initiatives within the WMD arena.

Table 8: *Nimble Elder Training/Exercise Metrics*

Training/Exercise Events	Number of Events FY 2023
USEUCOM	16
USINDOPACOM	7
USCENTCOM	7
USAFRICOM	5
USSOUTHCOM	6
CONUS	21

The Nimble Elder program, through its Technical Support Groups (TSGs), provides CCMDs and other U.S. Government agencies with the capability to address WMD threats. The TSGs conduct specialized CBRN training that normally spans one week. Program personnel also participate in regional/international exercises providing assistance to CCMD-designated forces and enhancing CCMD preparedness and capacity to respond to major CBRN events. Personnel facilitate development of a more robust, skilled, and inter-connected CWMD crisis response capability at all levels, thereby enhancing U.S. capability to respond to CWMD threats. Exercises are typically one to two weeks in length but can vary depending on the number of participants, location, and complexity.

Table 9: *Nuclear Surety Metrics*

Type of Assessment/Activity	Number of Assessments/Activities FY 2023
Reports and Security Environments Assessed	33
Safety Activities and Assessments	15
Use Control Activities/Assessments	6
Nuclear Explosive Ordinance Disposal Activities	2
Nuclear Security Reports, Studies and Assessments	4
Force-on-Force Program Exercises	1

The Nuclear Surety program provides expertise related to nuclear surety policy, nuclear weapons systems safety and security. Activities also include nuclear physical security modeling and simulation and conducting physical materials defect testing on behalf of the Office of the Assistant Secretary of Defense for Nuclear, Chemical, and Biological Defense Programs (OASD(NCB)) and the Military Services. The program also serves as the controlling authority (CONAUTH) for logistics keys and code materials; nuclear explosive ordnance disposal and use control project officer groups and provides reports for DoD in partnership with the National Nuclear Security Administration. DTRA's Force-on-Force program is a series of physical security evaluations, designed to evaluate the effectiveness of nuclear security policy.

Table 10: *Defense Nuclear Surety Inspection Oversight Metrics*

Type of Assessment	Number of Assessments FY 2023
Defense Nuclear Surety Inspection Oversight Assessments	13

The oversight of Navy and Air Force Nuclear Surety Inspections provides the OSD and Joint Staff with independent assessments of service inspection teams' compliance with inspection directives. This program also provides assurance that Personnel Reliability Assurance

Program (PRAP) staff assessments are properly managed at the nuclear capable CCMDs.

Table 11: *Mission Assurance Metrics*

Mission Assurance Assessments:	Number of Assessments FY 2023
Pre-Site Surveys (Total)	56
Assessments:	
Vulnerability "Blue" Assessments	40
Red Assessments	16
Total Assessments	56
Customers	29
Other Activities	
Technical Support Projects	8
Analytical Projects	14
Combatant Command Anti-Terrorism Program Reviews	0
Mobile Training Teams (Mission Assurance Assessment & All Hazard Threat Assessment Course)	5
Total Other Activities	27

The Mission Assurance program conducts assessments that identify vulnerabilities in critical systems, networks, and architecture that could be exploited well below the level of armed conflict by state or non-state threat networks or could be impacted by natural or accidental hazardous events. This analysis is accomplished through the utilization of the Defense Critical Infrastructure Vulnerability Analysis process, which includes: Survivability Assessments, Mission Assurance Assessments, and Red Team Assessments. All assessment capabilities outlined provide recommendations to mitigate identified risks to critical infrastructure within the DoD portfolio providing DoD leadership with critical information for determining vulnerability remediation, migration, or acceptance.

Table 12: *Plans/Exercises Metrics*

Type of Exercise	Number of Exercises FY 2023
Joint Training Plan Exercises focused on training of assigned forces	8

Prepares DTRA to conduct globally integrated operations in support of the warfighter, as directed by CJCS Instruction 3500.01J. Accordingly, this program conducts collective joint staff training to ensure mission readiness in direct coordination with the CCMDs. The program plans, executes, and assesses CWMD and counter threat exercise scenarios in support of the Joint Strategic Campaign Plan, CCMDs' numbered war plans and contingency plans through the Chairman's Joint Exercise program and national-level exercises in coordination with OSD, Joint Staff, Military Services, other U.S. Government departments and agencies, and Allied forces. In addition, DTRA participates in a number of CCMD-sponsored exercises where we train other than assigned DTRA forces.

Table 13: *Accident/Incident Exercise Metrics*

	Number of Exercises

Type of Exercise	FY 2023
Nuclear Weapons Accident/Incident Exercises	30

DTRA has worked diligently to strengthen the continental U.S. nuclear weapon incident response capability and will continue to sustain this capability while providing emphasis on United States European Command (USEUCOM) nuclear weapon accident/incident response capabilities. The number of exercises supported and associated costs are dependent on the location and training objectives. These efforts allow for the identification of gaps in nuclear weapons accident/incident response capabilities and means/methods to repair those vulnerabilities; and enhanced synergy and operational compatibility between DoD and nuclear weapon accident/incident response mission partners at the federal, state, local, and tribal levels and with North Atlantic Treaty Organization (NATO) nuclear program of cooperation countries.

Table 14: *Building Partner Capacity Metrics*

	Number of Events
Type of Mission	FY 2023
International Counterproliferation Events	26
CWMD Engagements	37

DTRA continues security cooperation operations with partners globally to enhance Geographic Combatant Commands' (GCC) and USG identified partners' preparedness to respond to major CBRN incidents/disasters resulting from either accidental or intentional acts, increase interoperability with U.S. Forces, enable partners to prevent proliferation along their land and maritime borders, enhance proliferation security, counter illicit WMD trafficking, and counter improvised WMD. DTRA executes capacity building efforts that leverage U.S. Interagency partners, National Guard and Services to strengthen partner nations' training capabilities and capacity, enhance the professionalization of forces and provide equipment compatible for increased interoperability.

Analysis of Financial Statements and Stewardship Information

DTRA 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). DTRA's financial statements are subject to an independent audit to provide reasonable assurance they are free from material misstatements. However, in FY 2023 the auditors issued a disclaimer of opinion. DTRA's management is responsible for the integrity and objectivity of the financial information presented in these financial statements. DTRA's financial statements are a vital component of sound financial management and are intended to provide accurate, accountable and reliable financial information for assessing performance, allocating resources and for targeting areas for future emphasis.

DTRA's Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources have been prepared to report the financial position and results of operations of DTRA, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2022 to FY 2023.

Summary Table of Key Financial Measures (in thousands)

As of and for the Year-ended September 30, 2022 and 2023 (Amounts in thousands)							
	FY 2023 Unaudited		FY 2022 Unaudited		Increase/Decrease $ and %		
Condensed Principal Financial Statements							
Gross Costs	$	2,094,869	$	2,001,149	$	93,720	5%
Less Earned Revenue	$	(63,261)	$	(73,409)	$	10,148	-14%
Net Cost of Operations	$	2,031,608	$	1,927,740	$	103,868	5%
Assets:							
Fund Balance with Treasury	$	1,856,886	$	1,883,147	$	(26,261)	-1%
Accounts Receivable	$	1,024	$	579	$	445	77%
Other Assets	$	6,374	$	5,568	$	806	14%
Property, Plant & Equipment, Net	$	70,249	$	42,846	$	27,403	64%
Advances and Prepayments	$	-	$	119	$	(119)	-100%
Total Assets	$	1,934,533	$	1,932,259	$	2,274	0%
Liabilities:							
Accounts Payable	$	176,487	$	114,975	$	61,512	54%
Federal Employee [& Veteran] Benefits	$	24,621	$	24,826	$	(205)	-1%
Environmental and Disposal Liabilities	$	9,411	$	8,618	$	793	9%
Other Liabilities	$	5,128	$	11,560	$	(6,432)	-56%
Total Liabilities	$	215,647	$	159,979	$	55,668	35%
Net Position (Assets minus Liabilities)	$	1,718,886	$	1,772,280	$	(53,394)	-3%

Balance Sheets

The Balance Sheets present the amounts of future economic benefits owned or managed by DTRA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). The table above summarizes the fluctuations in the Balance Sheet from FY 2023 to FY 2022.

Total Assets of $1,934,533 thousand as of September 30, 2023, consisted primarily of $1,856,886 thousand in Fund Balance with Treasury (FBWT) and $70,249 thousand in General Property, Plant and Equipment (PP&E). The decrease in FBWT is mainly attributable to a decrease in appropriations within the directorates Cooperative Threat (CT) of $64,000 thousand and Research and Development (RD) of $16,000 thousand. CT had less carry-over of multi-year funds in FY 2023 compared to FY 2022, because FY 23/25 funds were used for a large contract. For RD, funds totaling $19,000 thousand was received for a contract in FY 2021 and FY 2022. Funding was not received again in FY 2023 for this contract due to a decrease in requested work, resulting in the sharp decrease.

Accounts Receivable increased by $445 thousand (77%). The increase is largely due to an increase in Intragovernmental Receivables for Washington Headquarters Service (WHS). As of 4Q FY 2023, WHS had a receivable balance totaling $495 thousand in support of Defense Test Resource Management Center (TRMC) for execution of a Central Test and Evaluation Investment Program (CTEIP) for new X-ray Simulators for Test and Evaluation of Nuclear Survivability (XSTENS).

General Property, Plant, and Equipment increased by $27,403 thousand (64%) in FY 2023 compared to FY 2022. The primary driver of the increase is due to costs related to sub-allotted funds to the US Corp of Engineer for the building of a new facility at Kirtland Air Force Base in Albuquerque, New Mexico.

Total Liabilities of $215,647 thousand as of September 30, 2023, consisted primarily of Accounts Payable for $176,487 thousand, Federal Employee and Veteran Benefits for $24,621 thousand, and Environmental Liabilities for $9,411 thousand. Accounts Payable increased by $61,512 thousand (54%) in FY 2023 in comparison to FY 2022. The increase is largely due to a new accrual methodology DTRA implemented in FY23 to record estimated Accounts Payable and Expenses associated with non-federal obligations, resulting in a $108,000 thousand accrual. This was partially offset by a decrease of General Services Administration (GSA) trading partner seller activity in FY 2023 because DTRA is reducing the use of a GSA contracting vehicle and instead contracting those services directly.

Statements of Net Cost

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

Net Cost of Operations as of September 30, 2023, increased by $103,868 thousand (5%). The increase is primarily attributable to the increase in Gross Costs of $93,720 thousand (5%) in FY 2023. This is largely due to the new accrual methodology to record estimated Accounts Payable and Expenses associated with non-federal obligations, offset by a decrease in GSA trading partner seller activity.

Statements of Budgetary Resources

The Statements of Budgetary Resources provide information on the budgetary resources that were made available to the DTRA for the fiscal years ended September 30, 2022 and 2023, and the status of those budgetary resources. Budget authority is the authority provided to the DTRA by law to enter into obligations that will result in outlays of federal funds.

Limitations of the Financial Statements

The financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

Analysis of Systems, Controls and Legal Compliance

DTRA management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of OMB Circular A-123, Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control, the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S. Code (U.S.C.) 3512, Sections 2 and 4), and the Federal Financial Management Improvement Act (FFMIA) (Pub. L. 104-208), as prescribed by U.S. Government Accountability Office (GAO) Green Book, Standards for Internal Control in the Federal Government, are met.

Management Assurances

DEFENSE THREAT REDUCTION AGENCY
8725 JOHN J. KINGMAN ROAD, STOP 6201
FORT BELVOIR, VA 22060-6201

MEMORANDUM FOR UNDERSECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))
DEPUTY CHIEF FINANCIAL OFFICER (DCFO)

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

The Defense Threat Reduction Agency (DTRA) is responsible for managing risks and maintaining effective internal control to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. DTRA conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and the Green Book, GAO-14-704G, *Standards for Internal Control in the Federal Government*. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts activities. DTRA can provide reasonable assurance that the internal controls over operations, reporting (including internal and external reporting) and compliance were operating effectively as of September 30, 2023 except as related to the following material weakness areas identified: 1) Fund balance with Treasury (as reported in *DTRA's Independent Auditor's Report on Internal Controls over Financial Reporting*, 2) Aged Balances (self-identified) and 3) Receipt and Acceptance (self-identified).

DTRA conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The *"Summary of Management's Approach to Internal Control Evaluation"* section provides specific information on how DTRA conducted this assessment. Based on the results of this assessment, DTRA is unable to provide reasonable assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA) of 1996, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2023.

DTRA assessed entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, we can provide reasonable assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2023.

No Anti-Deficiency Act violation has been discovered/identified during our assessments of the applicable processes.

My point of contact is Ms. Bridget Collins, Chief, Finance and Accounting. She can be reached at bridget.a.collins3.civ@mail.mil or 571-616-5597.

HERSMAN.REBECCA.K [redacted]
Digitally signed by HERSMAN.REBECCA.K [redacted]
Date: 2023.11.07 14:12:27 -05'00'

Rebecca K.C. Hersman
Director

Summary of Internal Controls Assessment

The objectives of the system of internal control of DTRA are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and non financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems compliance with the FMFIA and FFMIA

Federal Managers' Financial Integrity Act and OMB ircular No. A-123 Appendix A

DTRA management evaluated the system of internal controls in effect during the current fiscal year according to the guidance prescribed in the GAO Green Book and OMB Circular A-123. The evaluation of internal controls extends across DTRA and applies to program, administrative, operational controls, and financial reporting. Furthermore, the concept of reasonable assurance recognizes that; (1) the cost of internal controls should not exceed the expected benefits and (2) the benefits include reducing the risk associated with failing to acheive the stated objectives. Errors or irregularities may occur and not be detected because of inherent limitations in any system of internal control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. The projection of any system evaluation to future periods is subject to risks that procedures may be inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate. DTRA considered the five components and seventeen principles defined by the GAO Green Book to conclude. DTRA undertakes a combination of actions to ensure there is a reasonable level of assurance that internal controls are in place and operating effectively. Those actions consist of a combination of management control reviews, inspections and audits conducted throughout the year.

For all identified deficiencies, we are required to create Corrective Action Plans (CAPs) to address those deficiencies. DTRA reports CAPs related to Material Weaknesses and Significant Deficiencies to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). CAP owners provide periodic updates to DTRA leadership. Upon completion of a CAP, CAP owners submit the CAP closure request to the Finance and Accounting Office for testing and closure. If approved, the Chief of Finance and Accounting will submit the closed CAP information to OUSD(C) as part of the Statement of Assurance (SOA). Based on the results of the assessment, DTRA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2023, except for the material weaknesses reported. DTRA currently has three Internal Controls over Financial Reporting (ICOFR) material weaknesses.

Material Weakness	Corrective Action Plan Summary
1 – Receipt and Acceptance	To address the issue of sufficiency of receipt and acceptance supporting documentation per the DoD Financial Management Regulation (FMR) Volume 10, Chapter 8.
2 – Aged Unliquidated Obligations	To accelerate contract closeout on contracts with aged unliquidated balances. Develop policies and procedures for timely closeout of all contracts.
3 – Fund Balance with Treasury (auditor identified)	Work with DFAS to reduce the unknown balances within the TI-97 suspense, statement of differences and cash management reconciliation and determine if Treasury will assign DTRA subaccounts.

The Defense Agencies Initiative (DAI) is the principal financial management system used by DTRA for all financial transactions. DAI provides a real-time, web-based system of integrated business processes used by defense financial managers, program managers, auditors, and the Defense Finance and Accounting Service. The DAI core functionality is based on commercially available enterprise resource planning solutions. DAI is compliant with all annual Federal Information Security Management Act (FISMA) requirements and is fully accredited.

The Antideficiency Act

The Antideficiency Act (ADA), which is codified in 31 U.S.C. §§1341(a)(1), 1342, and 1517(a), stipulates that federal agencies may not obligate or expend funds in excess of the amount available in an appropriation, or fund, or in advance of appropriations; accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation.

At this time, DTRA does not have any known Antideficiency Act violations. DTRA has policies and procedures in place to monitor and track commitments, obligations and expenditures to ensure amounts do not exceed available authority. From a systematic perspective, DAI employs funds control mechanisms that prevent transactions from exceeding appropriated amounts.

Prompt Payment Act, 31 U.S.C. §§ 3901–3907

In 1982, Congress enacted the Prompt Payment Act (PPA) to require Federal Agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. DTRA is compliant with the Prompt Payment Act.

Federal Financial Management Improvement Act of 1996

FFMIA was enacted to advance Federal financial management by ensuring that Federal financial management systems can routinely provide reliable financial information uniformly across the Federal government following OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996.* The FFMIA requires Agencies to establish and maintain financial management systems that substantially comply with the following three FFMIA Section 803(a) requirements:

- Federal Financial Management System (FFMSRs)
- Federal Accounting Standards
- U.S. Standard General Ledger (USSGL) at the transaction level

OMB Circular A-123, Appendix D provides the compliance determination framework to evaluate compliance with the FFMIA requirements. The FFMIA compliance determination framework includes a series of Federal financial management goals applicable across all Federal Agencies and associated compliance indicators that assist the Agency head in determining whether the Agency has substantially complied with the requirements of FFMIA.

DTRA leveraged the OMB Circular A-123, Appendix D compliance determination framework to perform a review of data for each of the FFMIA compliance indicators and associated analysis to determine compliance with FFMIA. Based on the application of the framework and associated analysis of relevant FFMIA compliance indicators available, DTRA identified high-risk factors associated with compliance with federal accounting standards. FFMSRs.

High-risk factors that indicate non-compliance include the disclaimer of opinion for FY 2023 financial statements and material weaknesses over internal controls over reporting reported by DTRA in FY 2022 and FY 2023 in areas related to compliance with federal accounting standards and our inability to produce reliable financial statements.

Financial Systems Strategy

DTRA's financial systems improvement strategy supports DTRA's overall strategy, involving continuous monitoring and testing of internal controls over financial management systems through annual assessment processes and CAP remediation to ensure compliance. Audit findings from the financial statement audit will be tracked formally and prioritized to closure, working with key internal and external stakeholders closely on identifying root causes and developing corrective actions that address the issues. DTRA will also continue monitoring and addressing DoD Chief Information Officer priorities communicated to the DoD community.

Summary

DTRA management remains committed to addressing the material weaknesses identified in audits, evaluations, and assessments of controls in its financial management systems and its business processes to ensure existence of effective internal controls, systems integration, and timely and reliable financial and performance data for reporting purposes. The table below shows the number of material weaknesses, significant deficiencies, and legal requirements not in compliance because of the internal control results of FY 2023:

Fiscal Year End	Number of Material Weaknesses	Number of Significant Deficiencies	Number of Legal Requirements Not in Compliance
2023	3	1	0

Forward-Looking Information

DTRA, as the pre-eminent CWMD Agency in the USG, is prepared to meet the challenges of our ever-evolving national security environment. We are ready to support the efforts of our warfighters, the USG, allies, and partners as the nation competes with global competitors. The Agency provides, and will continue to provide, necessary capabilities, expertise, and programs to support a robust U.S. national defense against WMD to ensure the DoD and Joint warfighter, USG, allies, and partners prevail across the continuum of strategic competition, conflict, and post-conflict recovery.

As China and Russia expand their WMD capabilities and challenge the international order, DTRA is preparing for, and responding to, the current and emerging WMD threats that pose the gravest risks to our nation. DTRA, as the pre-eminent CWMD agency in the USG, must ensure we are prepared to meet the challenges of our evolving security environment. We will continue to provide the necessary capabilities, expertise, and programs to support a robust defense against WMD that ensures the United States and its allies are able to deter, prevent, and prevail across the global security environment. Furthermore, DTRA will continue to build upon its knowledge and expertise by transitioning them into enduring Agency capabilities by FY 2025.

1. Adapt to the Information Environment: DTRA will proactively broaden information sharing, strengthen capacity-building efforts with partners, anticipate vulnerabilities within the information environment, and support activities that allow the USG to characterize and attribute WMD-related events and disinformation campaigns. Today's dynamic information environment requires that DTRA cultivate a culture of information resiliency within our own programs and activities.

2. Prepare for WMD Crisis Events: DTRA will continue to prioritize crisis readiness for WMD use by state actors, to include the potential for limited nuclear use, across a range of scenarios. DTRA will identify both internal and CWMD enterprise gaps, seams, and risks to align our crisis decision-making with the Department and the USG, and ensure we can support our partners during moments of acute crisis. DTRA will implement the Agency's enhanced crisis response framework and develop crisis readiness training and exercises while improving cross-DoD, interagency, and international cooperation for regional WMD crisis preparedness.

3. Strengthen Future Arms Control: Collaborating with partners, DTRA will leverage its expertise in arms control implementation, nuclear deterrence support, research and development, and capacity-building by aligning investments, programs, and activities to identify emerging and trending threats that can be addressed through improved arms control agreements, confidence-building, transparency measures, and verification capabilities; and develop and test the viability of technological solutions and operational concepts that support a whole-of-government approach to limit, reduce, or mitigate such threats.

4. Build the Workforce of the Future: Achievement of DTRA's mission depends on the Agency's ability to recruit, develop, and sustain a diverse and highly-skilled 21st century workforce built on agile, information advantaged, motivated and innovative problem-solvers to tackle the most intractable WMD challenges.

SECTION 2: FINANCIAL SECTION

(Unauditited)

Message from the Comptroller

It is my pleasure to join the Director in presenting DTRA's FY 2023 financial statements. Our financial statements and accompanying information provide a comprehensive view of the accomplishments and activities undertaken while demonstrating transparency and accountability to Congress and the American people. DTRA remains committed to mission success and ensuring value, efficiency, and effectiveness, as well as ensuring outstanding stewardship to protect against fraud, waste, and abuse in every program we manage.

This year DoD selected DTRA to undergo standalone financial statement audit. We worked closely with our auditors, Kearney & Company, throughout the audit to share our processes and controls, provide timely key supporting documentation and support each step of the audit. However, because of existing weaknesses Kearney and Company issued a disclaimer of opinion. I am confident that with each year of the audit, we will consistently improve. We remain committed across all levels of the Agency to correct material weaknesses quickly and thoroughly and to continuously evaluate operational impacts on the financial statements, identify the financial statement and financial reporting risks, and design and implement the appropriate controls to address those risks.

I am pleased to share some key financial accomplishments during FY 2023:

- Established an accrual process with our significant trading partners
- Ensured unmatched disbursements were kept at record lows
- Implemented key controls to monitor and record construction in progress and internal use software projects timely
- Implemented G-invoicing
- Developed a receipt and acceptance process for automated payments
- Continued to balance resources to address strategic and WMD threats to ensure we're advancing the Department's and President's strategy

It is with great privilege and respect that we effectively and efficiently continue to perform the Agency mission and drive strategic outcomes that benefit the Department and its stakeholders.

Sincerely,

KLESS.TERESA.D. [redacted]

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Date: 2023.11.07 14:06:41 -05'00'

Teresa D. Kless

Comptroller

Independent Auditor's Report

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Director of the Defense Threat Reduction Agency

Report on the Audit of Financial Statements

Disclaimer of Opinion

We were engaged to audit the General Fund (GF) financial statements of the Defense Threat Reduction Agency (DTRA), which comprise the Balance Sheet as of September 30, 2023, the related Statements of Net Cost and Changes in Net Position, and the combined Statement of Budgetary Resources (hereinafter referred to as the "financial statements") for the year then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of DTRA. 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 financial statements.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are complete and free from material misstatements when taken as a whole. DTRA disclosed in Note 1, *Summary of Significant Accounting Policies*, instances where its current accounting business practices represent departures from accounting principles generally accepted in the United States of America. As a result, DTRA was unable to assert that the financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America. DTRA asserted to the following departures from accounting principles generally accepted in the United States of America:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*
- Cost provisions as set forth in SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*.

We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of the financial statements reported as of September 30, 2023. This includes $1.9 billion of Fund Balance with Treasury (FBWT) and $176.4 million of Accounts Payable (AP) ($35.5 million Federal and $140.9 million Non-Federal) reported on the Balance Sheet.

We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of Gross Costs. For the period ended September 30, 2023, DTRA reported $2.1 billion in Gross Costs on its Statement of Net Cost.

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We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of the Unobligated balance from Prior-Year Budget Authority, Net line item on DTRA's Statement of Budgetary Resources. As of September 30, 2023, DTRA reported $536 million on the Unobligated balance from Prior-Year Budget Authority, Net line item on its Statement of Budgetary Resources.

The effects of the conditions described in the preceding paragraphs cannot be fully quantified, nor was it practical, given the available information, to extend audit procedures to sufficiently determine the extent of the misstatements to the financial statements. The effects of the conditions in the preceding paragraphs and overall challenges in obtaining sufficient audit evidence also made it impractical to execute all planned audit procedures. As a result, we were unable to determine whether any adjustments might have been found necessary with respect to recorded or unrecorded amounts within the elements of the financial statements.

Other Matter

Prior-Period Financial Statements Not Audited

We were not engaged to audit, review, or apply any procedures on the fiscal year (FY) 2022 financial statements. Accordingly, we do not express an opinion or any other form of assurance on the FY 2022 financial statements as a whole.

Responsibilities of Management for the Financial Statements

Management is responsible for: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of required supplementary information (RSI) in accordance with U.S. generally accepted accounting principles; 3) the preparation and presentation of other information included in DTRA's Agency Financial Report (AFR), as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DTRA's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of DTRA's financial statements in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01,

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Audit Requirements for Federal Financial Statements, and to issue an auditor's 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 financial statements. We are required to be independent of DTRA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other RSI be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the RSI in accordance with *Government Auditing Standards* because of matters described in the ***Basis for Disclaimer of Opinion*** section above. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01, we have also issued reports, dated November 7, 2023, on our consideration of DTRA's internal control over financial reporting and on our tests of DTRA's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2023. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 7, 2023

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Director of the Defense Threat Reduction Agency

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Threat Reduction Agency (DTRA) as of and for the year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise DTRA's financial statements, and we have issued our report thereon dated November 7, 2023. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Report on Internal Control over Financial Reporting

In planning and performing our engagement to audit the financial statements, we considered DTRA'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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DTRA's internal control. Accordingly, we do not express an opinion on the effectiveness of DTRA's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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; therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying **Schedule of Findings**, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 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 **Schedule of Findings** to be material weaknesses.

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A *significant deficiency* is a deficiency, or 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 deficiency described in the accompanying **Schedule of Findings** to be a significant deficiency.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to DTRA's management in a separate letter.

The Defense Threat Reduction Agency's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DTRA's response to the findings identified in our engagement and described in the accompanying **Schedule of Findings**. DTRA's response to the findings identified in our engagement is described in a separate memorandum attached to this report in the Financial section of the Agency Financial Report. DTRA concurred with the findings identified in our engagement. DTRA's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DTRA's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 7, 2023

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Schedule of Findings

Material Weaknesses

I. Fund Balance with Treasury (*New Condition*)

Background: The Defense Threat Reduction Agency (DTRA) is one of many Treasury Index (TI)-97 Defense agencies who share Treasury Account Symbols (TAS) with other Defense agencies and whose funds are aggregated at the Department of the Treasury (Treasury). Treasury maintains and reports Fund Balance with Treasury (FBWT) balances at the TAS level, rather than at the Department of Defense (DoD) limit level, which would distinguish DTRA's FBWT balance from the aggregated TI-97 FBWT amount. DTRA's service organization produces the Cash Management Report (CMR) to provide Other Defense Organizations (ODO) with individual FBWT balances at the limit level. The CMR includes transactions not identified to a specific Defense agency and included in Reconciling Items or Unidentified Variances categories. For the transactions in these categories, the owner agency has not been identified at the time of reporting and, therefore, is not reported on any specific ODO's financial statements, including DTRA's. These transactions could potentially result in material misstatements for any one specific TI-97 agency, including DTRA.

DTRA's service organization manages, reports, and accounts for FBWT budget clearing (Suspense) account activities to Treasury. Suspense accounts temporarily hold unidentifiable collections or disbursements that belong to the Federal Government. None of the collections recorded in Suspense accounts are available for obligation or expenditure while in Suspense. Agencies should have a process to research and properly record Suspense account transactions in their general ledgers (GL) timely. Transactions recorded in DoD Suspense accounts are required to be reconciled monthly and moved to the appropriate Line of Accounting (LOA) within 60 business days from the date of transaction. DTRA Suspense transactions, if any, are included and accounted for in TI-97 ODOs, Department of the Navy (TI-17), Department of the Air Force (TI-57), and Department of the Army (TI-21) Suspense accounts based on DoD disbursing processes.

DTRA's service organization provides daily Non-Treasury Disbursing Office (NTDO) disbursing services under various Agency Location Codes (ALC), often referred to as Disbursing Symbol Station Numbers (DSSN), and monthly Treasury reporting services under various reporting ALCs, different than disbursing ALCs. Treasury generates a Statement of Differences (SOD) report each month. The SOD report identifies discrepancies between the collections and disbursements reported to Treasury and the transactions that were processed by the ALCs each month. As a reporting entity, DTRA is responsible for monitoring differences identified for the ALCs that process its transactions to determine whether its transactions are included in an SOD report and erroneously omitted from its financial statements.

Condition: DTRA, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions recorded in the CMR Reconciling Items and Unidentified Variances balances, recorded in Suspense accounts, or which comprise SOD

DTRA DEFENSE THREAT REDUCTION AGENCY

balances in DTRA's primary DSSNs, do not contain DTRA transactions that should be recognized in the entity's accounting records. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and fiscal year (FY)-end financial reporting. While DTRA's service organization prepares quarterly materiality assessments for the CMR, Suspense accounts, and SODs to identify the total count and dollar amount of transactions resolved to DTRA and other Defense agencies, the uncleared transactions included across the assessments are material. Assessments with fully cleared data identified to an entity are not available in a timely manner to perform sufficient analysis for financial reporting timelines.

Cause: DTRA shares TIs and TASs with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DTRA is dependent on its service organization to provide the FBWT amount on the financial statements in order to balance with the CMR. The entity's Suspense activity is not recorded in unique Suspense accounts, but rather in shared TI-97, TI-57, TI-21, and TI-17 Suspense accounts. DTRA's service organization's process to create the Universe of Transactions (UoT) for the CMR, Suspense accounts, and SODs is a time-intensive and manual process that requires the consolidation of multiple files from various sources. The UoTs continue to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoTs and materiality assessment but takes a significant amount of time, making them unavailable for financial reporting.

DTRA and its service organization have not designed and implemented a methodology to determine the financial reporting impact of the outstanding balances in the CMR Reconciling Items and Unidentified Variances balances, Suspense accounts, or SODs to DTRA's financial statements for financial reporting in a timely manner sufficient for quarterly and annual financial reporting timelines. The quarterly materiality assessments do not identify amounts attributed to DTRA for the current quarter, but estimate the amount based on historical data. Additionally, at the time of UoT availability and when quarterly materiality assessments are prepared, there is a significant volume of transactions, for a material dollar amount, making up the CMR, Suspense account, and SOD balances that have not been identified to an entity and are listed in the UoTs as "to be determined" (TBD).

Effect: DTRA cannot identify or record activity in the CMR Reconciling Items or Unidentified Variances balances, Suspense accounts, or SODs belonging to DTRA into its GL and financial statements pursuant to quarterly financial reporting timelines. Without additional compensating internal controls or monitoring procedures and analyses, the lack of methodology to determine the financial reporting impact of these balances inhibits DTRA's ability to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

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Recommendations: Kearney & Company, P.C. (Kearney) recommends that DTRA implement internal control activities to ensure that material DTRA transactions, individually and in the aggregate, are identified and appropriately included within DTRA's accounting records. Specifically, Kearney recommends that DTRA perform the following:

1. Work with Treasury to establish subaccounts under the shared TAS used by DTRA that are unique to the entity so that it can obtain Treasury Central Accounting Reporting System (CARS) reports to document its FBWT balance directly from Treasury and remove the need for the CMR.
2. Work with Treasury, the Office of the Secretary of Defense (OSD), DTRA's service organization, and other entities to transition away from using monthly non-CARS reporting ALCs to daily full CARS reporting ALCs.
3. Consider any limitations to DTRA's service organization's CMR, Suspense, and SOD reconciliation process and continue developing compensating controls to reconcile the CMR to minimize the risk of a potential material misstatement.
4. Implement business process improvements in the related financial statement line items to prevent items from reaching Suspense. Specifically, DTRA should develop and implement monitoring controls and processes for Accounts Receivable (AR) and Accounts Payable (AP) balances to reduce the risk of DTRA having a material amount of disbursements and collections not reflected on its financial statements.
5. Research and resolve Suspense transactions by correcting the transactions in source systems and assist DTRA's service organization with necessary supporting documentation for corrections, if needed.
6. Assist DTRA's service organization by providing supporting information to clear transactions reported in SODs timely.

In addition, Kearney recommends that DTRA coordinate with its service organization to perform the following:

1. Continue to develop and implement procedures to resolve differences between the CMR and CARS monthly and identify the agencies for which the differences impact.
2. Continue to monitor and track the resolution of the various CMR differences categories, Suspense accounts, and SODs cleared to DTRA to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."
3. Continue to develop effective system and process controls to ensure that disbursements and collections are processed with valid TI, TAS, and DoD limits.
4. Continue to develop procedures to determine what portion of the CMR, Suspense balances, and SODs, if any, should be attributed to DTRA for financial reporting in a timely manner and made available for year-end financial reporting purposes.
5. Develop and implement a process to establish unique identifiers for each transaction in Suspense UoTs that roll forward from period to period. DTRA's service organization should develop controls over the establishment and roll-over of those unique identifiers that can be tested for reliance.

6. Assess and identify ALCs that primarily report collection and disbursement activity to Treasury on behalf of DTRA.

II. Accounts Payable and Related Expenses (*New Condition*)

Background: A liability is a responsibility of a Federal Government agency to provide assets or services to another entity at a determinable date, when a specific event occurs, or on demand. Federal agencies should only record a liability when there is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions. When a Federal agency is preparing financial statements, a methodology for estimating amounts owed, but not yet invoiced, must be established. This AP estimate ensures expenses are recorded in the proper period using accrual accounting and the matching principle. Management is responsible for developing these reasonable estimates based on assumptions and relevant factors and comparing estimates with subsequent results to assess the accuracy of the estimation process. An AP accrual is intended to recognize amounts owed by DTRA for goods and services received, but not yet invoiced. As of September 30, 2022, DTRA's reported AP totaled $115 million, and reported Gross Costs incurred during FY 2022 totaled $2 billion. In FY 2023, DTRA reported $176.4 million of AP and $2.1 billion in Gross Costs as of and for the period ended September 30, 2023.

For certain DTRA procurements, goods and/or services are made via contracts that are administered within the Mechanization of Contract Administration Services (MOCAS), an enterprise solution that supports DoD contracts and payments. Receipt and acceptance is a necessary element of a Federal agency's internal control environment and should occur as invoices are received to ensure DTRA can attest to the existence and valuation of the expense transactions. This control process should include a three-way match between the invoice, receiving report, and Purchase Order. The purpose of designing and implementing receipt and acceptance internal controls is so DTRA can ensure payments being made are for goods and services that were actually received.

Condition: For opening balances of FY 2023 as of October 1, 2022, DTRA did not record an amount for non-Federal estimated AP in accordance with Federal accounting standards. DTRA did not consider its non-Federal expenses when designing and implementing an estimated AP accrual methodology associated with services and/or goods provided to DTRA for which no invoice has been received. During FY 2023, DTRA designed and implemented an AP accrual for non-Federal activity in response to findings identified during the audit. DTRA recorded an estimate as of September 30, 2023; however, the underlying supporting documentation was insufficient to support the estimated AP amount.

DTRA does not have a fully implemented process in place to validate receipt and acceptance of goods and/or services invoiced through Wide Area Workflow (WAWF) on MOCAS-entitled contracts. DTRA's current business process is not effective to ensure that DTRA is receiving goods and services that are being invoiced. DTRA is unable to sufficiently support the substantive validity, accuracy, and completeness of non-payroll expenses recorded in United States Standard General Ledger (USSGL) No. 610000, *Operating Expenses/Program Costs*.

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Interim testing identified 88 of 118 non-payroll expense samples for which sufficient and appropriate audit evidence could not be obtained.

Cause: DTRA did not sufficiently assess financial reporting risks associated with AP/expenses as it pertains to goods/services received but not yet billed or to the validity and valuation of AP and related expenses for non-Federal transactions. During FY 2023, DTRA began the process of implementing a non-Federal AP accrual methodology. The estimated opening balance AP accrual did not contain sufficient and appropriate audit evidence with respect to the validity of the underlying expenses used to estimate the accrual. DTRA's underlying supporting documentation does not always include evidence of receipt and acceptance; therefore, the calculated estimates may be based on assumptions that are not consistent with actual events and data.

DTRA does not consistently obtain and/or maintain sufficient supporting documentation to validate if goods and services are received prior to accepting invoices and processing payments. While DTRA has established processes that align with contractual requirements for payment processing, those processes have not been designed to sufficiently achieve financial reporting objectives. Additionally, DTRA does not have a post-payment process in place to validate expenses when receipt and acceptance cannot be performed prior to payment processing.

Effect: DTRA's opening balance of AP was materially misstated as of October 1, 2022. DTRA's internal analysis indicated the misstatement totaled $93 million; however, sufficient and appropriate audit documentation could not be provided to support the misstatement amount. DTRA is unable to assert to the accuracy and completeness of its AP as reported on the Balance Sheet and related expenses as reported on the Statement of Net Cost as of and for the period ended September 30, 2023. Without a reliable AP accrual methodology in place, as well as appropriate receipt and acceptance of goods and/or services provided to DTRA, there is an increased risk that DTRA's financial statements may be materially misstated as of September 30, 2023.

Recommendations: Kearney recommends that DTRA management perform the following:

1. Formally establish accounting policy and related business processes that require the estimation of AP and related expenses for goods/services received but not yet invoiced. DTRA should verify whether financial reporting risks associated with unbilled goods/services are appropriately addressed within applicable Risk Management and Internal Control (RMIC) Program assessments.
2. Continue to execute its plan to design and implement an AP accrual and validation through the review of paid vendor invoices processed after quarterly reporting. This includes performing the following:
    a. Verify that the underlying expense and disbursement information used in the estimation process is appropriately supported with evidence of receipt and acceptance of goods/services prior to entitlement and disbursement to validate the amounts used in the accrual.

   b. Expand the accrual validation of the time lag established for the estimate to include an assessment of DTRA expenses that occur throughout the FY and not limit the validation to one quarter of activity.
3. On an annual basis, validate the AP accrual estimate through look-back procedures to continuously assess the reasonableness of the estimation methodology.
4. Continue evaluating the current internal control environment and implement control activities to verify receipt and acceptance of goods/services prior to entitlement and disbursement or through timely post-payment reviews. These control activities should be designed in a manner that allows management to have reasonable assurance that the risk of material misstatement will be reduced to a sufficiently low level.
5. Continue performing monitoring activities and testwork under the DTRA RMIC Program to determine if newly implemented/updated policies and procedures are effective.

III. Monitoring and Reporting of Obligations (*New Condition*)

Background: Undelivered Orders (UDO) represent the amount of goods and/or services ordered that have not been actually or constructively received; these can be unpaid or prepaid. Federal agencies record UDOs when they enter into an agreement, such as a Military Interdepartmental Purchase Request (MIPR), contract, or sales order to receive goods and/or services. Agencies should maintain policies and procedures to ensure that UDOs represent valid future outlays. DTRA reported more than $1.4 billion in UDOs within the Statement of Budgetary Resources (SBR) as of September 30, 2022 and as opening balances as of October 1, 2022. The UDO balance is supported by transactions that detail information such as the document number, obligated amount, undelivered amount, and transaction date, among other unique identifying details for each UDO balance.

Condition: DTRA did not have sufficient controls in place to ensure invalid UDOs are not reported on its SBR. DTRA's FY 2023 opening balance of UDOs, as of October 1, 2022, contained 108 invalid UDOs, totaling $38.5 million, of 438 samples tested. These were determined to be invalid due to expired period of performance, expired fund availability, and/or lack of recent activity. In addition, DTRA was unable to provide sufficient and appropriate documentation to support an additional 20 UDO balances tested.

Cause: DTRA's current business practices for monitoring UDOs to verify the validity, accuracy, and completeness for financial reporting is not effective. DTRA management indicated that dormant balances remain open and reported in the financial statements due to the lack of effective reviews for validity by funds holders, delays in obtaining open obligation status from external vendors and/or trading partners, and delays in third-party closeout audits.

In addition, DTRA has not integrated program management oversight and monitoring processes with internal controls over financial reporting to sufficiently mitigate risk associated with reporting inaccurate UDO balances within its financial statements.

Effect: DTRA cannot assert to the substantive validity, accuracy, and completeness of its UDO balance as reported within the SBR. The untimely action to deobligate funds results in stale

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obligations remaining on DTRA's financial statements, which increases the risk of overstatement of obligated balances. Additionally, DTRA's inability to provide sufficient source documentation to support the validity, accuracy, and completeness of UDO transactions prevents it from effectively monitoring UDOs as part of internal controls over financial reporting.

Recommendations: Kearney recommends that DTRA perform the following:

1. Perform a full-scope analysis of open obligations to determine risk categories (e.g., high, medium, low) of UDOs which may require deobligation. In addition;
    a. Program offices should be made aware of the deobligation initiative with established cut-off dates for mandatory deobligation of stale obligations that cannot be appropriately supported as valid.
    b. Deobligations should be processed to close stale UDOs or bring the balances down to a supported amount of remaining future services or closeout actions.
2. Reassess the current internal control environment to ensure processes are in place to effectively monitor and assess the validity of open UDOs at the Contracting Officer's Representative (COR)/Contracting Officer (CO) level. Quarterly certification of monitoring activities may be necessary in the short term to effectively ensure UDOs are being monitored and the cleanup initiative is performed timely.
3. Expand the monitoring program over open obligations included in DTRA's Dormant Account Review – Quarterly (DAR-Q) program, included within the DTRA RMIC. Sampling efforts should be expanded, until which time UDOs can be asserted to for financial reporting accuracy.
4. Coordinate with DTRA Program Offices, fund holders, and the acquisition community to ensure all relevant stakeholders are aware of the effect invalid and/or unsupported UDOs may have on DTRA, both operationally and financially.

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Significant Deficiency

I. Property, Plant, and Equipment (*New Condition*)

Background: The September 30, 2022 Defense Threat Reduction Agency (DTRA) Balance Sheet contained General Property, Plant, and Equipment (PP&E), composed of General Equipment (GE), Internal Use Software (IUS), and Construction in Progress (CIP) with a net book value (NBV) of $42.8 million. DTRA's GE includes assets held in DTRA's custody, as well as Government-Furnished Property (GFP) held by contractors performing services for DTRA under an established agreement. GE is required to be recorded at cost in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, as amended by SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*. DTRA utilizes the Defense Property Accountability System (DPAS) as its Accountable Property System of Record (APSR). DTRA is responsible for establishing controls to ensure DPAS maintains an accurate account of its General PP&E, including the completion of an annual physical inventory covering 100% of DTRA's General PP&E.

During fiscal year (FY) 2023, DTRA initiated reclassification efforts from capital assets to non-capital assets, for certain GE assets which were fully depreciated.

Condition: DTRA did not sufficiently demonstrate the existence of its capitalized GE reported in the opening balance of its financial statements as of October 1, 2022. The results of GE existence testing procedures identified 12 out of 45 assets for which DTRA was unable to support existence procedures.

- Six assets could not be located or alternative procedures, such as follow-up requests, were not sufficient to support asset existence
- Six assets were reclassified by DTRA as non-capital assets in April 2023; however, sufficient supporting documentation could not be provided for the reclassification of the assets. No additional documentation was provided to support asset existence.

DTRA management inappropriately reclassified an additional nine GE assets from capital to non-capital in DPAS in April 2023. The total acquisition cost of DTRA's reclassification efforts totaled $9.5 million. DTRA did not adhere to requirements set forth in SFFAS No. 6, as amended, in reclassifying the assets as non-capital assets.

Cause: DTRA has not established effective internal controls over the management and financial reporting of GE. Additionally, the entity has not implemented effective business processes to mitigate the risk over the reporting and accountability of equipment held by contractors. DTRA did not update DPAS timely for disposals of GE. Per instruction from the Office of the Secretary of Defense (OSD), an exception to the annual physical inventory was granted because of the Coronavirus Disease 2019 (COVID-19) pandemic. During this period, DTRA completed its inventories by sending memorandums to hand receipt holders to track additions and

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disposals/transfers. During FY 2023, DTRA resumed the process of conducting physical inventories.

In determining reclassification of GE assets as non-capital, DTRA cited challenges in establishing a reasonable estimate using alternative valuation techniques promulgated by SFFAS No. 50, leading to the decision to revalue the assets below established capitalization thresholds. DTRA noted that these challenges included:

- Lack of documentation existing in hard copy or in DPAS to provide a detailed description of the functionality of the model or functionality of the asset to allow DTRA to research cost information for similar assets
- The stock number documented in DPAS was a Material Control Number (MCN) rather than the National Stock Number (NSN), indicating these assets are unique and not commercially available from outside vendors
- Lack of retention of hard copies of contracts and invoices for the purchase of the old assets.

Effect: Ineffective GE management controls may result in the loss of accountability for asset custodianship and result in unsupportable financial reporting over General PP&E. The lack of an effective internal control environment for GE increases the risk of misstatement occurring and not being prevented, detected, and corrected in a timely manner.

The improper reclassification of assets from capital to non-capital resulted in an understatement of $9.5 million in Acquisition Value and Accumulated Depreciation/Amortization, as reported in Note 9, *General PP&E, Net*.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that DTRA perform the following:

1. Revisit internal control procedures and policy developed for the accountability, management (including disposal and transfer), and reporting of GE, as well as assess whether changes are required, given the testing results identified. Specifically, we recommend DTRA:
    a. Assess internal controls and processes over document retention, specifically as it pertains to the procurement/acquisition, movement, disposal, or re-classification of assets.
    b. In addition to GE held by DTRA, procedures and policy should include quarterly certification from all vendors holding GFP.
2. Ensure established policy and procedures are fully implemented and operating effectively through continuous monitoring procedures.
3. Conduct a 100% GE inventory of capital assets to ensure assets noted in the APSR are identified in the current FY's financial statements and items that have been disposed of or transferred are appropriately excluded from the current FY's financial statements.
4. If DTRA identifies existing capital assets for which challenges exist to develop reasonable estimates, consider the following:

a. If such assets are in use, obtain a description of the asset's current use from Program Management stakeholders and determine a reasonable like-kind asset to base a reasonable estimate for valuation.
b. If assets are determined to no longer be in use for their original intended purpose, follow appropriate disposal requirements set forth in SFFAS No. 6. In particular, assets should be removed from General PP&E accounts, along with associated accumulated depreciation/amortization, if prior to disposal, retirement, or removal from service, the asset no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Director of the Defense Threat Reduction Agency

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Threat Reduction Agency (DTRA) as of and for the year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise DTRA's financial statements, and we have issued our report thereon dated November 7, 2023. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of DTRA, 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 determination of the financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DTRA. However, providing an opinion on compliance with those provisions was not an objective of our engagement; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-01, which are described in the accompanying **Schedule of Findings**.

The results of our tests of compliance with FFMIA disclosed that DTRA's financial management systems did not comply substantially with the Federal financial management system's requirements and applicable Federal accounting standards, as described in the accompanying **Schedule of Findings**.

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.

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The Defense Threat Reduction Agency's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DTRA's response to the findings identified in our engagement and described in the accompanying **Schedule of Findings**. DTRA's response to the findings identified in our engagement is described in a separate memorandum attached to this report in the Financial section of the Agency Financial Report. DTRA concurred with the findings identified in our engagement. DTRA's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 7, 2023

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Schedule of Findings

Noncompliance and Other Matters

I. The Federal Managers' Financial Integrity Act of 1982 (*New Condition*)

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, implements the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA and OMB Circular A-123 require agencies to establish a process to document, assess, and assert to the effectiveness of internal control over financial reporting.

The Defense Threat Reduction Agency (DTRA) has not established and implemented controls in accordance with standards prescribed by the Comptroller General of the United States, as codified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book), as supported by the material weaknesses in the *Report on Internal Control over Financial Reporting*.

II. The Federal Financial Management Improvement Act of 1996 (*New Condition*)

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that an entity's overall financial management systems environment operate, process, and report data in a meaningful manner to support business decisions. FFMIA states that Federal agencies shall comply substantially with the requirements within Section 803(a). These requirements include:

- Federal financial management system requirements
- Applicable Federal accounting standards
- United States Standard General Ledger (USSGL) at the transaction level.

DTRA's financial management systems do not substantially comply with the requirements within FFMIA, as discussed below.

Federal Financial Management Systems Requirements

FFMIA requires reliable financial reporting, including the availability of timely and accurate financial information, and maintaining internal control over financial reporting and financial system security. The matters described in the Basis for Disclaimer of Opinion section in the accompanying *Independent Auditor's Report*, as well as the material weaknesses reported in the accompanying *Report on Internal Control over Financial Reporting*, represent noncompliance with the requirement for reliable financial reporting.

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Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support financial reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). As described in the Basis for Disclaimer of Opinion section in the accompanying *Independent Auditor's Report*, we experienced scope limitations and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DTRA's financial statements. Because of the significance of the scope limitations, we were unable to determine in all cases whether DTRA's financial statements contained material departures from GAAP. As identified through our audit procedures and as asserted by DTRA, the following departures from GAAP were identified:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*
- Cost provisions as set forth in SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*.

RESPONSE TO INDEPENDENT AUDITOR

Kearney & Company, P.C.
Attn: Mr. Daniel Scarola
1701 Duke Street, Suite 500
Alexandria, VA 22314

Dear Mr. Scarola:

Please accept our gratitude for the Kearney and Company team's extensive efforts with the audit of the Defense Threat Reduction Agency (DTRA) Fiscal Year (FY) 2023 financial statements. We concur with your audit results and will devise a methodical approach to design and implement corrective actions addressing your findings and recommendations.

We are in the process of refining our audit response strategy to concisely focus on remediation of material weaknesses and scope limitations. We are also working to enhance our Risk Management and Internal Control program. We acknowledge the material weaknesses and significant deficiencies identified in your "Independent Auditor's Report on Internal Control over Financial Reporting" and the findings identified in your "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements." We will continue to work to correct, improve, and sustain progress of our accounting processes, internal controls, financial systems, and financial reporting.

We swiftly and diligently began efforts immediately for all observations as they were communicated to our team. We anticipate resolution of our most material findings in advance of FY 2024 audit testing. We will continue to proactively seek opportunities to improve the design and operating effectiveness of our financial processes, systems, and internal controls to achieve an unmodified audit opinion of our DTRA financial statements. We appreciate and extend our sincere thanks to you and your team for their professionalism, due diligence, and commitment.

Sincerely,

COLLINS.BRIDGE T.A.[redacted] Digitally signed by COLLINS.BRIDGET.A.[redacted] Date: 2023.11.02 10:49:33 -04'00'

Bridget Collins

Chief, Finance and Accounting

Principal Financial Statements

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

1. **Balance Sheet** - Presents DTRA's financial position as of September 30, 2023, and September 30, 2022. Assets reflect the economic benefits controlled by DTRA, Liabilities reflect probable future outflows or other sacrifices of resources as a result of past transactions or events, and Net Position reflects the residual amounts.
2. **Statements of Net Cost** - Presents the Net Cost of DTRA's operations by major program for the years ended September 30, 2023, and September 30, 2022. DTRA's Net Cost of Operations is equal to the gross cost incurred net of exchange revenue earned and gains/losses from actuarial assumption changes for Military Retirement Benefits.
3. **Statements of Changes in Net Position** - Presents the change in the DTRA's Net Position that resulted from the Net Cost of Operations, Budgetary Financing Sources, and Other Financing Sources for the years ended September 30, 2023, and September 30, 2022.
4. **Statements of Budgetary Resources** - Presents information about the Budgetary Resources available to DTRA, the quarter-end status of the resources, and the outlays of resources for the years ended September 30, 2023, and September 30, 2022.

Balance Sheets

As of September 30, 2023 and 2022 ($ in Thousands)	2023 Unaudited	2022 Unaudited
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,856,886	$ 1,883,147
Accounts Receivable, Net (Note 6)	932	444
Other Assets (Note 10)	6,374	5,568
Total Intragovernmental	$ 1,864,192	$ 1,889,159
Other Than Intragovernmental:		
Accounts Receivable, Net (Note 6)	92	135
General Property, Plant and Equipment, Net (Note 9)	70,249	42,846
Advances and Prepayments (Note 10)	-	119
Total Other Than Intragovernmental	70,341	43,100
Total Assets	$ 1,934,533	$ 1,932,259
Stewardship PP&E (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$ 35,550	$ 84,887
Other Liabilities (Notes 13 and 15)	1,529	1,460
Total Intragovernmental	$ 37,079	$ 86,347
Other Than Intragovernmental:		
Accounts Payable	$ 140,937	$ 30,088
Federal Employee and Veteran Benefits Payable (Note 13)	24,621	24,826
Environmental and Disposal Liabilities (Note 14)	9,411	8,618
Other Liabilities (Notes 15, 16 and 17)	3,599	10,100
Total Other Than Intragovernmental	178,568	73,632
Total Liabilities	$ 215,647	$ 159,979
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Funds Other than Dedicated Collections	1,688,280	1,768,849
Total Unexpended Appropriations (Consolidated)	1,688,280	1,768,849
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)	3,040	351
Cumulative Results of Operations - Funds Other than Dedicated Collections	27,566	3,080
Dedicated Collections and Other Funds		
Total Cumulative Results of Operations (Consolidated)	$ 30,606	$ 3,431
Total Net Position	$ 1,718,886	$ 1,772,280
Total Liabilities and Net Position	$ 1,934,533	$ 1,932,259

Statements of Net Cost

For the periods ended September 30, 2023 and 2022 ($ in Thousands)	2023 Unaudited	2022 Unaudited
Program Costs (Note 19)		
Gross Costs	$ 2,094,869	$ 2,001,149
Operations, Readiness & Support	1,424,346	1,366,042
Procurement	14,335	15,979
Research, Development, Test & Evaluation	656,188	619,128
(Less: Earned Revenue)	(63,261)	(73,409)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	2,031,608	1,927,740
Net Program Costs Including Assumption Changes	2,031,608	1,927,740
Net Cost of Operations	$ 2,031,608	$ 1,927,740

Statements of Changes in Net Position

As of September 30, 2023 and 2022 ($ in Thousands)	2023 Unaudited	2022 Unaudited
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated	$ 1,768,849	$ 1,813,164
Beginning Balances, as adjusted	1,768,849	1,813,164
Appropriations received	2,017,255	1,922,901
Appropriations transferred in/out	(7,050)	(5,485)
Other adjustments (+/-)	(47,640)	(27,057)
Appropriations used	(2,043,134)	(1,934,674)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	(80,569)	(44,315)
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - See Note 18)	1,688,280	1,768,849
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	3,431	(11,678)
Beginning Balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	3,431	(11,678)
Appropriations used	2,043,134	1,934,674
Donations and forfeitures of cash and cash equivalents	3,500	284
Transfers in/out without reimbursement	2	4
Imputed financing	13,274	7,886
Other	(1,127)	1
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	2,031,608	1,927,740
Net Change in Cumulative Results of Operations	27,175	15,109
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - See Note 18)	30,606	3,431
Net Position	$ 1,718,886	$ 1,772,280

Statements of Budgetary Resources

As of September 30, 2023 and 2022 ($ in Thousands)	2023 Unaudited	2022 Unaudited
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 536,053	$ 476,211
Appropriations (discretionary and mandatory)	2,013,932	1,923,161
Spending Authority from offsetting collections (discretionary and mandatory)	36,733	68,355
Total Budgetary Resources	$ 2,586,718	$ 2,467,727
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 2,195,058	$ 2,021,874
Unobligated balance, end of year:		
Apportioned, unexpired accounts	298,085	345,169
Unapportioned, unexpired accounts	226	226
Unexpired unobligated balance, end of year	298,311	345,395
Expired unobligated balance, end of year	93,349	100,458
Unobligated balance, end of year (total)	391,660	445,853
Total Budgetary Resources	$ 2,586,718	$ 2,467,727
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	1,992,552	1,849,341
Distributed offsetting receipts (-)	(3,500)	(284)
Agency Outlays, net (discretionary and mandatory)	$ 1,989,052	$ 1,849,057

Notes to the Principal Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Defense Threat Reduction Agency (DTRA) is an agency within the United States (U.S.) Department of Defense (DoD). The reporting entity is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for the Government-wide and DoD reporting because they are offset by assets and liabilities of another U.S. Government entity or another DoD Components. DTRA and other DoD Components who received appropriations under Treasury Index (TI) 97 are grouping our financial activities by the assigned Sub-Allotment Holder Identifier (SAHI) limit. DTRA is only responsible for reporting financial activities associated with SAHI limit 34**, 4201, and 001 on the Agency's financial statements. These financial statements should be read with the realization they are for a component of DoD and the U.S. Government.

B. Mission of the Reporting Entity

DTRA provides cross-cutting solutions to enable the DoD, the U.S. Government, and international partners to deter strategic attacks against the U.S. and its allies; prevent, reduce, and counter weapons of mass destruction (WMD) and emerging threats; and prevail against WMD-armed adversaries in crisis and conflict.

C. Basis of Presentation

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

To the extent possible, the financial statements have been prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, and with GAAP for federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB).

D. Basis of Accounting

DTRA's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances within our financial systems. DTRA financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

E. Accounting for Intragovernmental and Intergovernmental Activities

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

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

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

F. Non-Entity Assets

Non-entity assets are not available for use in DTRA's normal operations.

G. Fund Balance with Treasury

The Fund Balance with Treasury (FBWT) represents the aggregate amount of DTRA's available budget spending authority available to pay current liabilities and finance future authorized purchases. DTRA's monetary resources of collections and disbursements are maintained in Department of the Treasury (Treasury) accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers currently process the majority of the Department of Defense's (DoD's) cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, to include DTRA, are included at the Treasury Index (TI) 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, Treasury does not separately report an amount for DTRA. DFAS is responsible for reconciling DTRA activities to the aggregated TI97 balances using the Cash Management Report (CMR).

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

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

H. Cash and Other Monetary Assets

Not applicable to DTRA.

I. Investments

Not applicable to DTRA.

J. Accounts Receivable

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

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

K. Loans Receivable, Net and Loan Guarantee Liabilities

Not applicable to DTRA.

L. Inventories and Related Property

Not applicable to DTRA.

M. General Property, Plant and Equipment

DTRA generally records General Property, Plant and Equipment (PP&E) at the estimated historical cost. However, DTRA has used the alternative valuation methods from Statement of Federal Financial Accounting Standards (SFFAS) No. 50 based on historical records such as expenditure data, contracts, budget information, and engineering documentation.

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold, as set by the FMR. The costs of modifications/improvements to existing General PP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250,000.

DTRA establishes its useful lives of assets based on asset class in accordance with policy provided in Department of Defense (DoD) Financial Management Regulation (FMR) Volume 4, Chapter 25. DTRA depreciates all General PP&E assets, other than land, on a straight-line basis.

In accordance with the DoD FMR Volume 4, Chapter 24 "Real Property", DTRA does not report the real property it occupies on its financial statements. Rather, these assets are reported by the Host Installation.

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

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

The Statement of Federal Financial Accounting Standards (SFFAS) 29 provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. DTRA fully commits to the preservation of our history, heritage, and traditions, and meets this commitment through its policy to preserve Heritage Assets, which are items of natural, cultural, educational, architectural, or artistic significance. DTRA defines Heritage Assets as Museum Collection Items: Items are considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

DTRA performs the repair and maintenance of equipment as soon it is needed using current year funds; therefore, DTRA does not have deferred maintenance and repairs. All essential repairs and maintenance are completed within the current year budget.

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

N. Other Assets

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

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

For additional information, see Note 10, Other Assets.

O. Leases

The Statement of Federal Financial Accounting Standards (SFFAS) 6 defines have capital leases as when a lease substantially transfers all the benefits and risks of ownership to DTRA and value equals or exceeds the relevant capitalization threshold. DTRA does not have capital leases.

SFFAS 6 defines operating leases defined as those leases that do not substantially transfer all the benefits and risks of ownership to the Department. DTRA has operating leases. Payments for operating leases are expensed over the lease term. Office space leases entered into by the Department are the largest component of operating leases. Payments due for cancelable leases are not included in the presentation of this note.

For additional information, see Note 16, Leases.

P. Liabilities

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

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

Q. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal resulting from the use of DTRA's assets or operations. Consistent with SFFAS No. 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government, non-environmental disposal liabilities are recognized when management decides to dispose of an asset.

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

R. Other Liabilities

Other Liabilities includes:

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

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

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

Statement of Federal Financial Accounting Standards (SFFAS) No. 51, Insurance Programs, established accounting and financial reporting standards for insurance programs. The Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to the Department's civilian employees; however, they are not required to participate. These programs include life, health, and long-term care insurance.

The life insurance program, Federal Employee Group Life Insurance (FEGLI) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (FEHB) program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (FEDVIP). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis. However, there is no requirement to enroll in FEHB.

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

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

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

S. Commitments and Contingencies

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

DTRA reports environmental contingencies separate from legal contingencies. The legal environmental cases are recorded as legal contingencies.

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

T. Federal Employee and Veteran Benefits

DTRA applies Statement of Federal Financial Accounting Standards (SFFAS) No. 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost.

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

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

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

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

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

U. Revenues and Other Financing Sources

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

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

DTRA receives congressional appropriations and funding as general fund and special funds related to contributions from foreign Allies into the Cooperative Threat Reduction (CTR) Program. DTRA uses these appropriations and contribution funds to execute its missions, and subsequently reports on resource usage.

DTRA general fund appropriations cover costs including personnel, operations and maintenance, research and development, procurement, and military construction.

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

In accordance with SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, DTRA recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

V. Recognition of Expenses

DTRA’s policy, in according with GAAP, requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

W. Budgetary Resources

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

The following budgetary terms are commonly used:

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

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

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

Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and sub-function, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. DTRA reports new contributions in the CTR programs as offsetting receipts.

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

X. Treaties for Use of Foreign Bases

Not applicable to DTRA.

Y. Use of Estimates

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

Z. Parent-Child Reporting

DTRA is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created using the Office of the Secretary of Defense (OSD) limit or subhead function as a subset of the parent fund account for tracking and reporting purposes. The OSD limitation or subhead is a four-digit suffix to the U.S. Treasury account number (basic symbol). The limitation is used to identify a subdivision of funds that restricts the amount or use of funds for a certain purpose or identifies sub elements within the account for management purposes.

All allocation transfers of balances are credited to this account; and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed all activity be reported in the financial statements of the child entity.

DTRA has allocation transfers, as a parent entity, to the following DoD agencies: U.S. Special Operations Command (USSOCOM) and U.S. Army Corps of Engineers (USACE). As a parent entity, DTRA reports in these financial statements certain funds allocated to the USSOCOM and

USACE.

AA. Transactions with Foreign Governments and International Organizations

Not applicable to DTRA.

BB. Fiduciary Activities

Not applicable to DTRA.

CC. Tax Exempt Status

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

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

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by Office of Management and Budget (OMB) Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on DTRA's Balance Sheet are reflected on DoD and 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 fiscal year 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 TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 6, Accounts Receivable, Net; Note 10, Other Assets; Note 15, Other Liabilities; Note 18, Funds from Dedicated Collections; and Note 24, Reconciliation of Net Cost to Net Outlays.

Note 2. Non-Entity Assets

Table 2. Non-Entity Assets

As of September 30	2023 (unaudited)	2022 (unaudited)
(Amounts in thousands)		
1. Non-Federal Assets		
A. Accounts Receivable	0	0
B. Total Non-Federal Assets	$ 0	$ 0
2. Total Non-Entity Assets	$ 0	$ 0
3. Total Entity Assets	$ 1,934,533	$ 1,932,259
4. Total Assets	$ 1,934,533	$ 1,932,259

Note 3. Fund Balance with Treasury

Table 3. Status of Fund Balance with Treasury

As of September 30	2023 (unaudited)		2022 (unaudited)	
(Amounts in thousands)				
1. Unobligated Balance:				
A. Available	$	298,085	$	345,169
B. Unavailable		93,575		100,684
Total Unobligated Balance	$	391,660	$	445,853
2. Obligated Balance not yet Disbursed	$	1,515,623	$	1,514,210
3. Non-FBWT Budgetary Accounts:				
A. Unfilled Customer Orders without Advance		(42,011)		(68,467)
B. Receivables and Other		(8,386)		(8,449)
Total Non-FBWT Budgetary Accounts	$	(50,397)	$	(76,916)
4. Total FBWT	$	1,856,886	$	1,883,147

The Treasury records cash receipts and disbursements on DTRA's behalf; funds are available only for the purposes for which the funds were appropriated. DTRA's Fund Balances with Treasury (FBWT) consist of appropriation accounts and special fund types.

The Status of FBWT, as presented in Table 3, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for special fund accounts are restricted for use by the public law that established the funds.

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

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

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

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

The FBWT reported in the financial statements has been adjusted to reflect the Department balance as reported by Treasury at the Treasury Index (TI) 97 appropriation level. Defense Agencies, to include DTRA, are included as part of the Treasury Index 97 appropriation level. The Defense Finance and Accounting Service (DFAS) is responsible for reconciling the aggregate balance to Treasury and assist with reconciling activities related to each Agency using the Cash Management Report (CMR). The difference between FBWT in DTRA general ledgers and FBWT balance determined by the CMR process is attributable to transactions that have not been posted to the individual detailed accounts in the general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. DFAS posted the differences between general ledger and the CMR as the undistributed adjustments. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in DTRA's general ledger accounts.

Note 4. Cash and Other Monetary Asset

Not applicable to DTRA.

Note 5. Investments and Related Interest

Not applicable to DTRA.

Note 6. Accounts Receivable, Net

Table 6. Accounts Receivable, Net

As of September 30	2023 (unaudited)		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 932	$ 0	$ 932
2. Non-Federal Receivables (From the Public)	$ 93	$ (1)	$ 92
3. Total Accounts Receivable	$ 1,025	$ (1)	$ 1,024

As of September 30	2022 (unaudited)		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 444	0	$ 444
2. Non-Federal Receivables (From the Public)	$ 154	$ (19)	$ 135
3. Total Accounts Receivable	$ 598	$ (19)	$ 579

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.

Note 7. Loans Receivable, Net and Loan Guarantee Liabilities

Not applicable to DTRA.

Note 8. Inventory and Related Property, Net

Not applicable to DTRA.

Note 9. General PP&E, Net

Table 9A. Major General PP&E Asset Classes

As of September 30	2023 (unaudited)				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Software	S/L	2-5 or 10	10,600	0	10,600
B. General Equipment	S/L	Various	29,361	(12,062)	17,299
C. Construction-in-Progress	N/A	N/A	42,350	N/A	42,350
D. Total General PP&E			$ 82,311	$ (12,062)	$ 70,249

As of September 30	2022 (unaudited)				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Software	S/L	2-5 or 10	2,839	0	2,839
B. General Equipment	S/L	Various	32,597	(24,153)	8,444
C. Construction-in-Progress	N/A	N/A	31,563	N/A	31,563

D.Total General PP&E	$ 66,999	$ (24,153)	$ 42,846

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable
* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings.

Table 9B. Heritage Assets

For the Period Ended September 30	2023 (unaudited)			
(physical count)				
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Museum Collection Items (Objects, Not Including Fine Art)	0	1,630	0	1,630

Table 9C. Stewardship Land

Not applicable to DTRA.

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

For the period ended September 30	2023 (unaudited)	2022 (unaudited)
(Amounts in thousands)		
1. General PP&E, Net beginning of year	$ 42,846	$ 23,473
2. Capitalized acquisitions	33,835	23,909
3. Dispositions	(2,103)	0
4. Revaluations (+/-)	750	0
5. Depreciation expense	(5,079)	(4,536)
6. General PP&E, Net end of year	$ 70,249	$ 42,846

DTRA's General PP&E consists primarily of general equipment, construction-in-progress of real property, construction-in-progress of general equipment, and internal use software in development. In FY 2023, DTRA's PP&E net book value increased by $27,403 thousand of which $10,787 thousand is for the construction-in-progress of real property and construction-in-progress of general equipment. Internal use software in development and general equipment increased by $7,761 thousand and $8,855 thousand respectively.

The construction-in-progress line item in the table combines both the balance for construction-in-progress for real property of $40,058 thousand for DTRA's new facility at Kirtland Air Force Base, Albuquerque, NM and construction-in-progress for general equipment of $2,292 thousand for FY 2023 and $16,239 thousand for construction-in-progress for real property and $15,324 thousand for construction-in-progress for general equipment for FY 2022.

The capitalization threshold for General PP&E assets is $250,000. There are no restrictions on the use or convertibility of General PP&E.

DTRA does not have any deferred maintenance and repairs to be reported in FY 2023. All essential repairs and maintenance are completed as necessary with the current year fund.

Heritage Assets and Stewardship Land

The Statement of Federal Financial Accounting Standards (SFFAS) 29 provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. DTRA fully commits to the preservation of our history, heritage, and traditions, and meets this commitment through its policy to preserve Heritage Assets, which are items of natural, cultural, educational, architectural, or artistic significance. DTRA defines Heritage Assets as Museum Collection Items: Items are considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

DTRA does not maintain Stewardship Land. DTRA acquires heritage assets through purchase, transfer from other agencies, donation, or other means. They are major components of weapon casings, foreign missile delivery system models and nuclear weapon models. The overall condition of the historical collection, which is primarily located at Nuclear Weapons Instructional Museum (NWIM) is well maintained as a result of both the professional care from trained conservators and improving exhibit/storage conditions.

The Defense Nuclear Weapons School (DNWS) provides training on various aspects of counter weapons of mass destruction (CWMD) to government agencies, in support of DTRA's mission to deter, prevent, reduce CWMD and emerging threats. The school manages and operates Nuclear Weapons Instructional Museum (NWIM). The museum is a repository that traces the history and development of the U.S. nuclear weapons stockpile from its inception to the present. The NWIM contains displays of all U.S. nuclear weapons and their associated components and delivery systems, as well as related training aids.

Note 10. Other Assets

Table 10. Other Assets

(Amounts in thousands)	2023 (unaudited)	2022 (unaudited)
1. Intragovernmental		
A. Advances and Prepayments	$ 6,374	$ 5,568
B. Total Intragovernmental	$ 6,374	$ 5,568
2. Other than Intragovernmental		
A. Advances and Prepayments	0	119
B. Subtotal	0	119
C. Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	0	(119)
D. Net Other than Intragovernmental	$ 0	$ 0
3. Total Other Assets	$ 6,374	$ 5,568

Intragovernmental Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received, such a travel advance. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred, such as prepaid rent. The Intragovernmental Advance and Prepayment balance was prepayment to the Department of Energy.

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

Note 11. Liabilities Not Covered by Budgetary Resources

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2023 (unaudited)	2022 (unaudited)
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts payable	$ 1	$ 0
B. Other	721	699
C. Total Intragovernmental Liabilities	$ 722	$ 699
2. Other than Intragovernmental Liabilities		
A. Accounts payable	$ 233	$ 236
B. Federal employee and veteran benefits payable	24,160	22,024
C. Environmental and disposal liabilities	9,411	8,618
D. Total Other than Intragovernmental Liabilities	$ 33,804	$ 30,878
3. Total Liabilities Not Covered by Budgetary Resources	$ 34,526	$ 31,577
4. Total Liabilities Covered by Budgetary Resources	$ 181,121	$ 128,402
5. Total Liabilities	$ 215,647	$ 159,979

Intragovernmental Other Liabilities consists primarily of unfunded liabilities for Federal Employees Compensation Act and Unemployment Insurance (FECA). The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues (TNC Yield Curve) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 2.119% was assumed for year one and years thereafter. An interest rate for medical benefits of 1.973% was assumed for year one and years thereafter. The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors were also used to adjust the methodology's historical payments to current year constant dollars.

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

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2023, these liabilities primarily consist of $20,515 thousand in accrued unfunded annual leave and $3,645 thousand in actuarial FECA liabilities. In FY 2022, these liabilities primarily consist of $19,358 thousand in accrued unfunded annual leave and $2,666 thousand in actuarial FECA liabilities.

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet includes Liabilities for Clearing Accounts, amounts that offset undistributed disbursements or collections deposited in clearing accounts awaiting disposition or reclassification. It also includes 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. Unfunded Federal Employees' Compensation Act (FECA) Liability, representing the amount of FECA liability billed to DoD by the Department of Labor for FECA payments made on the DoD's behalf, is also included. This liability will be funded by future years' budgetary resources.

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

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

Total 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, the U.S. 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).

Total Liabilities Covered by Budgetary Resources represents all funded liabilities.

Note 12. Debt

Not applicable to DTRA.

Note 13. Federal Employee and Veteran Benefits Payable

Table 13A. Federal Employee and Veteran Benefits Liability

As of September 30	2023 (unaudited)		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	3,645	0	3,645
B. Other	20,976	(461)	20,515
C. Total Other Benefits	24,621	(461)	24,160
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	24,621	(461)	24,160
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,529	(808)	721
4. Total Federal Employee and Veteran Benefits Payable	$ 26,150	$ (1,269)	$ 24,881

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

As of September 30	2022 (unaudited)		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	2,666	0	2,666
B. Other	22,160	(2,802)	19,358
C. Total Other Benefits	24,826	(2,802)	22,024
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	24,826	(2,802)	22,024
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	1,460	(761)	699

4. Total Federal Employee and Veteran Benefits Payable	$ 26,286	$ (3,563)	$ 22,723

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

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

Not applicable to DTRA.

Note 14. Environmental and Disposal Liabilities

Table 14. Environmental and Disposal Liabilities

As of September 30	2023 (unaudited)	2022 (unaudited)
(Amounts in thousands)		
1. Environmental and Disposal Liabilities—Other than Intragovernmental		
A. Other Accrued Environmental Liabilities—Non-BRAC		
Other	9,411	8,618
Total Other Accrued Environmental Liabilities—Non-BRAC	9,411	8,618
2. Total Environmental and Disposal Liabilities	$ 9,411	$ 8,618

Information Related to DTRA's Environmental Liabilities

Other Accrued Environmental Liabilities (non-BRAC)

- Other: $9,411 thousand in non-current liabilities are for clean-up costs at Kirtland Air Force Base (KAFB).

Other Disclosures

The environmental liabilities at KAFB are for environmental restoration activities that are not included in Defense Environmental Restoration Program (DERP) and are required under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Resource Conservation and Recovery Act (RCRA), and New Mexico laws and regulations. In addition, the following laws and regulations may be applicable to the DTRA's environmental cleanup liabilities at KAFB:

- Superfund Amendments and Reauthorization Act (SARA)
- Clean Air Act
- Clean Water Act
- Safe Drinking Water Act
- Toxic Substances Control Act
- Low Level Radioactive Waste Policy Amendments Act
- National Defense Authorization Acts.

Types of environmental liabilities and disposal liabilities identified

The non-current environmental liabilities at KAFB are for removal of thorium-contaminated soil and debris.

Nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations

A review of the current environmental liability cost estimate for the Thorium sites on KAFB, was completed February 2023.

Per FMR, Volume 4, Chapter 13, federal agencies must re-evaluate the liability cost estimates at least annually.

Environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. DTRA is unaware of any pending changes affecting its estimated cleanup costs.

Uncertainty Regarding Accounting Estimates

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

Note 15. Other Liabilities

Table 15A. Other Liabilities

As of September 30	2023 (unaudited)		
	Current Liability	Non-Current Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Liabilities for non-entity assets	0	0	0
B. Subtotal	0	0	0
C. Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	1,213	316	1,529
D. Total Intragovernmental	$ 1,213	$ 316	$ 1,529
2. Other than Intragovernmental			
A. Accrued funded payroll and leave	$ 3,599	$ 0	$ 3,599
B. Total Other than Intragovernmental	$ 3,599	$ 0	$ 3,599
3. Total Other Liabilities	$ 4,812	$ 316	$ 5,128

As of September 30	2022 (unaudited)		
	Current Liability	Non-Current Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Liabilities for non-entity assets	0	0	0
B. Subtotal	0	0	0

C. Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	987	473	1,460
F. Total Intragovernmental	$ 987	$ 473	$ 1,460
2. Other than Intragovernmental			
A. Accrued funded payroll and leave	$ 10,100	$ 0	$ 10,100
B. Total Other than Intragovernmental	$ 10,100	$ 0	$ 10,100
3. Total Other Liabilities	$ 11,087	$ 473	$ 11,560

Table 15B. Advances from Others and Deferred Revenue (reported separately from Other Liabilities on the Balance Sheet):

Not applicable to DTRA.

"Intragovernmental Other Liabilities" on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined balance sheet format (see additional information in Note 1.AD Significant Accounting Policies). Certain USSGLs on the Balance Sheet line "Intragovernmental Other Liabilities" are required to be reported on Note 13, Federal Employee and Veteran Benefits Payable, while others are reported on this Note 15. The amounts from the Balance Sheet "Intragovernmental Other Liabilities" reported on Note 13 are aggregated and also included above as Other Liabilities Reported on Note 13. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

Note 16. Leases

Not applicable to DTRA.

Note 17. Commitments and Contingencies

The Defense Threat Reduction Agency (DTRA) 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 accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government, as amended by SFFAS No. 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. DTRA has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized and the range is disclosed. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies.

DTRA does not have legal contingent liabilities that meet the criteria for a footnote disclosure as of September 30, 2023.

Note 18. Funds from Dedicated Collections

Table 18A. Balance Sheet — Funds from Dedicated Collections

As of September 30 (Amounts in thousands)	2023 (unaudited)							
		Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental:								
Fund Balance with Treasury	$	0	0	0	3,403	3,403	0	3,403
Total Intragovernmental Assets		0	0	0	3,403	3,403	0	3,403
Other than intragovernmental:								
Total Other than Intragovernmental Assets		0	0	0	0	0	0	0
Total Assets	$	0	0	0	3,403	3,403	0	3,403
Intragovernmental:								
Total Intragovernmental Liabilities		0	0	0	0	0	0	0
Other than intragovernmental:								
Accounts payable	$	0	0	0	363	363	0	363
Total Other than Intragovernmental Liabilities		0	0	0	363	363	0	363
Total Liabilities	$	0	0	0	363	363	0	363
Cumulative results of operations	$	0	0	0	3,040	3,040	0	3,040
Total Liabilities and Net Position	$	0	0	0	3,040	3,040	0	3,040

As of September 30 (Amount in thousands)		2022 (unaudited)						
		Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Intragovernmental:								
Fund Balance with Treasury	$	0	0	0	351	351	0	351
Total Intragovernmental Assets		0	0	0	351	351	0	351
Other than intragovernmental:								
Total Other than Intragovernmental Assets		0	0	0	0	0	0	0
Total Assets	$	0	0	0	351	351	0	351
Intragovernmental:								
Total Intragovernmental Liabilities		0	0	0	0	0	0	0
Other than intragovernmental:								
Total Other than Intragovernmental Liabilities		0	0	0	0	0	0	0
Total Liabilities	$	0	0	0	0	0	0	0
Unexpended appropriations	$	0	0	0	0	0	0	0
Cumulative results of operations		0	0	0	351	351	0	351
Total Liabilities and Net Position	$	0	0	0	351	351	0	351

Table 18B. Statement of Net Cost — Funds from Dedicated Collections

For the period ended September 30 (Amount in thousands)	2023 (unaudited)							
		Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations Between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Gross program costs	$	0	0	0	1,038	1,038	0	1,038
Net program costs		0	0	0	1,038	1,038	0	1,038
Net Cost of Operations	$	0	0	0	1,038	1,038	0	1,038

For the period ended September 30 (Amount in thousands)	2022 (unaudited)							
		Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations Between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Gross program costs	$	0	0	0	173	173	0	173
Net program costs		0	0	0	173	173	0	173
Net Cost of Operations	$	0	0	0	173	173	0	173

Table 18C. Statement of Changes in Net Position — Funds from Dedicated Collections

For the period ended September 30	2023 (unaudited)							
		Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations Between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations:								
Beginning balance	$	0	0	0	351	351	0	351

Beginning balance, as adjusted	0	0	0	351	351	0	351
Donations and forfeitures of cash and cash equivalents	0	0	0	3,500	3,500	0	3,500
Other	0	0	0	226	226	0	226
Net cost of operations	0	0	0	1,038	1,038	0	1,038
Net Change in Cumulative Results of Operations	0	0	0	2,688	2,688	0	2,688
Net Position, end of period	$ 0	0	0	3,039	3,039	0	3,039

For the period ended September 30 (Amounts in thousands)	2022 (unaudited)						
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Funds	Burden Sharing and Relocation Activities	Other Funds	Total Funds from Dedicated Collections (Combined)	Eliminations Between Dedicated Collections Funds	Total Funds from Dedicated Collections (Consolidated)
Cumulative Results of Operations:							
Beginning balance	$ 0	0	0	241	241	0	241
Beginning balance, as adjusted	0	0	0	241	241	0	241
Donations and forfeitures of cash and cash equivalents	0	0	0	284	284	0	284
Net cost of operations	0	0	0	173	173	0	173
Net Change in Cumulative Results of Operations	0	0	0	111	111	0	111
Net Position, end of period	$ 0	0	0	352	352	0	352

Tables 18A, 18B, and 18C are presented on a combined and consolidated basis and relate solely to Funds from Dedicated Collections. Eliminations reflect intra-entity balances and transactions between the entity's dedicated collections funds. The elimination balances are only eliminations between funds from dedicated collections.

DTRA's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources provided by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from DTRA's general revenues.

The contribution receipts received from Allies are reported under the Other Funds" section of the Funds from Dedicated Collections. The Public Law 111-87, Title XIII, Cooperative Threat Reduction (CTR), section 1303, authorized the creation of the CTR Contribution receipts, and set up the requirement of DoD submitting a notice to the appropriate congressional committees specifying the value of the contributions and the purpose for which the contribution was made and identifying the person who made the contribution. The public law also mandated that if the funds were not obligated or expended by three years after the date on which the contributions were made, DoD must return the amount to the contributor. Contributions receipts are reported at Treasury and DTRA general ledger under four year appropriation to be consistent with the public law. There has been no legislation in FY 2023 or FY 2022 which has significantly altered the purposes of the Department's Funds from Dedicated Collections.

The disclosures in this note are made in accordance with SFFAS No. 27, as amended by SFFAS No. 43.

Note 19. Disclosures Related to the Statement of Net Cost

Table 19. Costs and Exchange Revenue by Appropriation Category

As of September 30	2023 (unaudited)	2022 (unaudited)
(Amounts in thousands)		
Operations, Readiness & Support		
1. Gross Cost	$ 1,424,346	$ 1,366,043
2. Less: Earned Revenue	(42,868)	(50,234)
Net Program Costs	$ 1,381,478	$ 1,315,809
Procurement		
1. Gross Cost	$ 14,335	$ 15,979
2. Less: Earned Revenue	(1,288)	(583)
Net Program Costs	$ 13,047	$ 15,396
Research, Development, Test & Evaluation		
1. Gross Cost	$ 656,188	$ 619,128
2. Less: Earned Revenue	(19,105)	(22,592)
Net Program Costs	$ 637,083	$ 596,536
Consolidated		
1. Gross Cost	$ 2,094,869	$ 2,001,150
2. Less: Earned Revenue	(63,261)	(73,409)
Total Net Cost	$ 2,031,608	$ 1,927,741

The Statement of Net Cost (SNC) represents the net cost of programs of DTRA 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. DTRA's current processes and systems capture costs based on appropriation groups as presented in the schedule above. DTRA is in the process of reviewing available data and developing a cost reporting methodology required by statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government" as amended by SFFAS No. 55, "Amending Inter-Entity Cost Provisions."

DTRA also continues to review the available data and applicability of SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," for disclosures related to the pricing of goods and services provided to the public or another Federal entity. Please see Note 1, Significant Accounting Policies, Accounting for Intragovernmental and Intergovernmental Activities, for accounting policy related to intra-entity and inter-entity activities.

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

Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

As of September 30	*(Amounts in thousands) Unaudited*	
	2023	2022
Appropriations Received (Discretionary and Mandatory), Statement of Changes in Net Position	$2,017,255	$1,922,901
Trust and Special Fund Receipts	$3,727	
Miscellaneous (Other adjustments)	($7,050)	$260
Total Reconciling Difference	($3,323)	$260
Appropriations received, Statement of Budgetary Resources (SBR)	$2,013,932	$1,923,161

The variance between what is being reported in Appropriations Received, on the Statement of Changes in Net Position (SCNP) and Appropriations Received, on the Statement of Budgetary Resources (SBR) is directly related to the following:

The SCNP includes separate lines for the Trust and Special Fund Receipts for Cooperative Threat Reduction (CTR) contributions. Miscellaneous items include Appropriations Transferred in/out and undistributed adjustments for 2023 and 2022, while the SBR combined these in Appropriations (discretionary and mandatory).

Note 21. Disclosures Related to the Statement of Budgetary Resources

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Terms of Borrowing Authority Used

Available Borrowing/Contract Authority, End of Period

Table 21A. Available Borrowing/Contract Authority

Not applicable to DTRA.

Table 21A. Available Borrowing/Contract Authority

As of September 30	2023 (unaudited)	2022 (unaudited)
(Amounts in thousands)		
1. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

Undelivered Orders at the End of the Period

Table 21B. Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30	2023 (unaudited)	2022 (unaudited)
(Amounts in thousands)		
1. Intragovernmental:		
A. Unpaid	369,865	508,930
B. Prepaid/Advanced	6,374	5,568
C. Total Intragovernmental	$ 376,239	$ 514,498
2. Non-Federal:		
A. Unpaid	964,563	875,912
B. Prepaid/Advanced	0	119
C. Total Non-Federal	$ 964,563	$ 876,031
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 1,340,802	$ 1,390,529

Legal Arrangements Affecting the Use of Unobligated Balances

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

Contributed Capital

Note 22. Disclosures Related to Incidental Custodial Collections

Not applicable to DTRA.

Note 23. Fiduciary Activities

Not applicable to DTRA.

Note 24. Reconciliation of Net Cost to Net Budgetary Outlays

Table 24. Reconciliation of the Net Operating Cost & Net Budgetary Outlays

As of September 30	2023 (unaudited)		
	Federal	Non-Federal	Total
(Amounts in thousands)			
1. Net Cost of Operations (SNC)	$ 583,222	$ 1,448,386	$ 2,031,608
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General property, plant, and equipment, net	$ 0	$ 27,403	$ 27,403
3. Increase/(decrease) in Assets:			
a. Accounts receivable, net	488	(43)	445
b. Other assets	806	(119)	687
4. (Increase)/Decrease in Liabilities:			
a. Accounts payable	49,337	(110,849)	(61,512)
b. Environmental and disposal liabilities	0	(793)	(793)
c. Federal employee and veteran benefits payable	0	205	205
d. Other liabilities	(69)	6,501	6,432
5. Financing Sources:			
a. Imputed cost	(13,274)	0	(13,274)
6. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ 37,288	$ (77,695)	$ (40,407)
Components of Net Budgetary Outlays Not Part of Net Cost			
7. Financing sources:			
a. Donated Revenue	0	(3,500)	(3,500)
8. Total Components of Net Budgetary Outlays Not Part of Net Cost	$ 0	$ (3,500)	$ (3,500)
Miscellaneous Reconciling Items			
9. Transfers (in)/out without reimbursements	$ (2)	$ 0	$ (2)
10. Other	0	1,353	1,353
11. Total Other Reconciling Items	$ (2)	$ 1,353	$ 1,351
12. Total Net Outlays	$ 620,508	$ 1,368,544	$ 1,989,052
13. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$ 1,989,052
14. Unreconciled Difference			$ 1

Fiscal Year 2023

As of September 30	2022 (unaudited)		
(Amounts in thousands)	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	$ 705,232	$ 1,222,508	$ 1,927,740
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General property, plant, and equipment, net	$ 0	$ 19,373	$ 19,373
3. Increase/(decrease) in Assets:			
a. Accounts receivable, net	(1,578)	(40)	(1,618)
b. Other assets	831	(57)	774
4. (Increase)/Decrease in Liabilities:			
a. Accounts payable	(68,166)	(19,722)	(87,888)
b. Environmental and disposal liabilities	0	200	200
c. Federal employee and veteran benefits payable	0	(1,495)	(1,495)
d. Other liabilities	1,077	(858)	219
5. Financing Sources:			
a. Imputed cost	(7,886)	0	(7,886)
6. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (75,722)	$ (2,599)	$ (78,321)
Components of Net Budgetary Outlays Not Part of Net Cost			
7. Financing sources:			
a. Donated Revenue	0	(391)	(391)
8. Total Components of Net Budgetary Outlays Not Part of Net Cost	$ 0	$ (391)	$ (391)
Miscellaneous Reconciling Items			
9. Transfers (in)/out without reimbursements	$ (4)	$ 0	$ (4)
10. Total Other Reconciling Items	$ (4)	$ 0	$ (4)
11. Total Net Outlays	$ 629,506	$ 1,219,518	$ 1,849,024
12. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$ 1,849,057
13. Unreconciled Difference			$ (33)

The Reconciliation of Net Cost to Net Budgetary Outlays demonstrates the relationship between DTRA's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Budgetary Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. 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 DTRA'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 of receipt of cash. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principle.

The Reconciliation of Net Cost to Net Budgetary Outlays demonstrates the relationship between DTRA's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Budgetary Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. 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 DTRA'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 of receipt of cash. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principle.

The unreconciled difference of $33 thousand on Note 24 for 2022 is immaterial to DTRA's financial statements. According to DFAS guidance, Note 24 is allowed to be out of balance for 4QFY22. This immaterial variance does not affect the overall accuracy of 4QFY22 Financial Statements.

Note 25. Public-Private Partnerships

Not applicable to DTRA.

Note 26. Disclosure Entities and Related Parties

Not applicable to DTRA.

Note 27. Security Assistance Accounts

Not applicable to DTRA.

Note 28. Restatements

Not applicable to DTRA.

Note 29. COVID-19 Activity

Table 29C. Budgetary Resources for COVID-19 Activity Funded by COVID-19 Disaster Emergency Fund (DEF) Codes

For the period ended September 30 (Amounts in thousands)	2023 (unaudited)	2022 (unaudited)
Unobligated and unexpired balance, beginning of year	$ 193	$ 231
New budget authority	0	(25)
Rescissions (-) and other changes (+/-)	0	0
Less: Obligations	0	(13)
Expiring funds (-)	(193)	(193)
Unobligated and unexpired balance, end of period	$ 0	$ 0
Outlays, Net (Total)	$ 213	$ 191

DEF Codes included: M for *Families First Coronavirus Response Act (Public Law 116-127), Emergency*

N for *Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (Public Law 116-136), Emergency*

Note 30. Subsequent Events

As of the date of this report, there were no subsequent events to report.

Note 31. Reclassification of Financial Statement Line Items for Financial Report Compilation Process

Not applicable to DTRA.

Required Supplementary Information

Statements of Budgetary Resources - Unaudited

As of September 30, 2023 Unaudited (Amounts in thousands)	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Military Construction/Family Housing	FY 2023 Total
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 410,759	$ 1,368	$ 116,872	$ 7,054	$ 536,053
Appropriations (discretionary and mandatory)	1,332,689	14,435	666,808	-	2,013,932
Spending Authority from offsetting collections (discretionary and mandatory)	25,340	(351)	11,744	-	36,733
Total Budgetary Resources	1,768,788	15,452	795,424	7,054	2,586,718
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	1,487,640	12,016	690,391	5,011	2,195,058
Unobligated balance, end of year:					
Apportioned, unexpired accounts	206,530	3,412	86,357	1,786	298,085
Unapportioned, unexpired accounts	226	-	-	-	226
Unexpired unobligated balance, end of year	206,756	3,412	86,357	1,786	298,311

As of September 30, 2023 Unaudited (Amounts in thousands)	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Military Construction/Family Housing	FY 2023 Total
Expired unobligated balance, end of year	74,392	24	18,676	257	93,349
Unobligated balance, end of year (total)	281,148	3,436	105,033	2,043	391,660
Total Budgetary Resources	1,768,788	15,452	795,424	7,054	2,586,718
Outlays, Net:					
Outlays, net (total) (discretionary and mandatory)	1,336,279	12,562	621,538	22,173	1,992,552
Distributed offsetting receipts (-)	(3,500)	-	-	-	(3,500)
Agency Outlays, net (discretionary and mandatory)	1,332,779	12,562	621,538	22,173	1,989,052

As of September 30, 2022 Unaudited *(Amounts in thousands)*	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Military Construction/Family Housing	FY 2022 Total
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 395,120	$ 6,112	$ 66,220	$ 8,759	$ 476,211
Appropriations (discretionary and mandatory)	1,264,957	12,774	645,430	-	1,923,161
Spending Authority from offsetting collections (discretionary and mandatory)	48,166	-	20,189	-	68,355
Total Budgetary Resources	1,708,243	18,886	731,839	8,759	2,467,727
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	1,368,865	17,674	633,630	1,705	2,021,874
Unobligated balance, end of year:					
Apportioned, unexpired accounts	254,383	1,190	82,542	7,054	345,169
Unapportioned, unexpired accounts	226	-	-	-	226
Unexpired unobligated balance, end of year	254,609	1,190	82,542	7,054	345,395
Expired unobligated balance, end of year	84,769	22	15,667	-	100,458
Unobligated balance, end of year (total)	339,378	1,212	98,209	7,054	445,853
Total Budgetary Resources	1,708,243	18,886	731,839	8,759	2,467,727
Outlays, Net:					

As of September 30, 2022 Unaudited *(Amounts in thousands)*	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Military Construction/Family Housing	FY 2022 Total
Outlays, net (total) (discretionary and mandatory)	1,236,469	18,022	582,578	12,272	1,849,341
Distributed offsetting receipts (-)	(284)	-	-	-	(284)
Agency Outlays, net (discretionary and mandatory)	1,236,185	18,022	582,578	12,272	1,849,057

SECTION 3: OTHER INFORMATION

(Unaudited)

In accordance with OMB A-136, this section contains information related to:

- Financial Statement Audit and Management Assurances
- Management and Performance Challenges
- Payment Integrity Information Act Reporting

This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in DTRA's agency financial report.

Summary of Financial Statement Audit and Management Assurances

The following tables below represent summary information on the results of the FY 2023 DTRA financial statement audit, and internal control testing. DTRA is currently working to develop and implement CAPs to resolve specific findings associated with the material weaknesses.

Table 15: *Financial Statement Audit*

Audit Opinion	Disclaimer				
Restatement	No				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending**
Fund Balance with Treasury	0	1	0	0	1
Aged Balances	0	1	0	0	1
Receipt and Acceptance	0	1	0	0	1
Total MWs	0	3	0	0	3

Table 16: *Summary of Management Assurances*

Effectiveness of Internal Control over Financial Reporting					
Statement of Assurance	Modified				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending**
Fund Balance with Treasury	0	1	0	0	1
Aged Balances	1	0	0	0	1

Receipt and Acceptance	1	0	0	0	1
Total MWs	2	1	0	0	3

Effectiveness of Internal Control over Operations					
Statement of Assurance	Modified				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending**
None	0	0	0	0	0
Total MWs	0	0	0	0	0

Conformance with Federal Financial Management System Requirements						
Statement of Assurance	Federal Systems conform to financial management system requirements.					
Nonconformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending**
None	0	0	0	0	0	0
Total Nonconformances	0	0	0	0	0	0

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

Management and Performance Challenges

In FY 2023 the DoD Office of the Inspector General issued the following top DoD Management Challenges:

1. Building Enduring Advantages for Strategic Competition
2. Strengthening Cyberspace Operations and Securing Systems, Networks, and Data
3. Maintaining Superiority Through a Resilient Defense Industrial Base
4. Improving Financial Management and Budgeting
5. Adapting to Climate Change, Accelerating Resilience, and Protecting the Environment
6. Protecting the Health and Wellness of Service Members and Their Families
7. Recruiting and Retaining a Diverse Workforce
8. Accelerating the Transformation to a Data-Centric Organization

DTRA's Inspector General's office is not a statutory IG and they do not formally issue an annual report to management on challenges.

Payment Integrity Information Act Reporting

In compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), DTRA has designed a payment recapture audit plan to review and analyze accounting and other records that support payments to identify overpayments and recapture those payments. DTRA's plan includes payments related to Civilian Pay, Travel Pay, Commercial Pay and Government Purchase Card Pay processes.

DTRA maintains robust internal controls validated by Senior Leadership by utilizing several internal controls to prevent and/or identify erroneous or improper payments in addition to the support the Defense Finance and Accounting Service (DFAS) provides. Specifically, DTRA's plan leverages Contracting Officer reviews, Dormant Account Review- Quarterly, two-person reviews of travel vouchers, Manager's Internal Control Program testing, contract reviews, entitlement system reconciliations, and unmatched disbursement reviews. We believe that this combination of controls will ensure we identify control weaknesses in a timely manner and if necessary, make changes to remediate the deficiencies.

APPENDIX A: Acronym List

ABBREVIATION	DEFINITION
ADA	Antideficiency Act
AFSWP	Armed Forces Special Weapons Project
CARES	Coronavirus Aid, Relief, and Economic Security
CBDP	Chemical Biological Defense Program
CBRN	Chemical Biological Radiological and Nuclear
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officers
CCMD	Combatant Command
CIP	Construction-in-Progress
CJCS	Chairman Joint Chiefs of Staff
COLA	Cost of Living Adjustments
CONAUTH	Controlling Authority
COVID-19	Coronavirus Disease 2019
CPIM	Consumer Price Index Medical
CSRS	Civil Service Retirement System
CT	Cooperative Threat
CTBT	Comprehensive Nuclear Test Ban Treaty
CTR	Cooperative Threat Reduction
CW	Chemical Weapons
CWC	Chemical Weapons Convention
CWMD	Countering Weapons of Mass Destruction
DAI	Defense Agencies Initiative
DEF	Disaster Emergency Fund
DERP	Defense Environmental Restoration Program
DTRA	Defense Threat Reduction Agency
DoD	Department of Defense
DoE	Department of Energy
DoL	Department of Labor
DoT	Department of Treasury
ERM	Enterprise Risk Management
ESS	Enterprise Solutions and Service
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employees Health Benefits
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FFMSRs	Federal Financial Management System Requirements
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation
FVEY	Five Eyes
GAAP	Generally Accepted Accounting Principles

ABBREVIATION	DEFINITION
GAO	Government Accountability Office
GCC	Geographic Combatant Commands
GPRA	Government Performance and Results Act
ICOFR	Internal Control over Financial Reporting
IMPERIA	Improper Payments Elimination and Recovery Improvement Act
IMS	International Monitoring System
IPA	Independent Public Accountant
KAFB	Kirtland Air Force Base
NACT	Nuclear Arms Control Technology
NATO	North Atlantic Treaty Organization
NDS	National Defense Strategy
OASD(NCB)	Office of the Assistant Secretary of Defense for Nuclear, Chemical, and Biological
OI	Operations and Integration
OMB	Office of Management and Budget
OPCW	Organization for the Prohibition of Chemical Weapons
OPEB	Other Post-Employment Benefits
ORB	Other Retirement Benefits
OSD	Office of the Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PPA	Prompt Payment Act
PP&E	General Property, Plant and Equipment
PRAP	Personnel Reliability Assurance Program
RCRA	Resource Conservation and Recovery Act
S&T	Science and Technology
SARA	Superfund Amendments and Reauthorization Act
SECDEF	Secretary of Defense
SFFAS	Statement of Federal Financial Accounting Standards
SI	Strategic Integration
SNC	Statement of Net Cost
SOA	Statement of Assurance
TFM	Treasury Financial Manual
TI	Treasury Index
TNC	Treasury Nominal Coupon
TSG	Technical Support Group
USACE	United States Army Corps of Engineers
USD/I&S	Under Secretary of Defense for Intelligence and Security
USD(R&E)	Office of the Undersecretary of Defense for Research and Engineering
USEUCOM	United States European Command
USSGL	United States Standard General Ledger
USG	United States Government
USSOCOM	United States Special Operations Command
WMD	Weapons of Mass Destruction