Defense Information Systems Agency
General Fund
Annual Financial Report
Fiscal Year 2019

Message from the Defense Information Systems Agency

As Director of the Defense Information Systems Agency (DISA), I am pleased to present the Annual Financial Report (AFR) for the DISA General Funds (GF), as of September 30, 2019. As directed by Office of Management and Budget (OMB), Circular A-136, included in the AFR are the Management Discussion and Analysis to accompany the financial statements and footnotes for the FY 2019 GF Financial Statements, and a Performance and Financial Section which contains the auditor's signed report. DISA's FY 2019 GF audit has been conducted out-of-cycle.

DISA 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 DISA workforce engaging in day-to-day challenges associated with audit readiness to sustain our audit posture.

DISA conducted its assessment of risk and internal controls in accordance with the 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." DISA's assessment identified sixteen material weaknesses (MWs) which roll into three primary focus areas: Fund Balance with Treasury (9 MWs), aged transaction (4 MWs), and Hosting Services (3 MWs). DISA can provide reasonable assurance "except for" the MWs noted, that internal controls over operations, reporting, and compliance are operating effectively as of 30 September 2019.

The Agency continues to enhance and optimize our structure in order to more effectively execute our strategy, heighten our force posture into an agile cyber force, improve accountability, reduce duplication, and improve cost management.

Nancy A Norton
NANCY A. NORTON
Vice Admiral, USN
Director

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DISA General Fund FY 2019
Management's Discussion and Analysis

The Defense Information Systems Agency (DISA) is pleased to present a Management Discussion and Analysis (MD&A) to accompany the financial statements and footnotes for its fiscal year (FY) 2019 Consolidated Financial Statements. The key sections within this MD&A include the following:

1. **Mission and Organizational Structure**
2. **Performance Goals, Objectives & Results**
3. **Analysis of Entity's Financial Statements**
4. **Management Systems, Controls & Compliance with Laws and Regulations**
5. **Forward Looking**
6. **Limitations of the Financial Statements**

Mission and Organizational Structure

History & Enabling Legislation: The DISA, a combat support agency, provides, operates, and assures command and control, information sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to joint warfighters, National level leaders, and other mission and coalition partners across the full spectrum of operations. DISA implements the Secretary of Defense's Defense Strategic Guidance (DSG) and reflects the DoD Chief Information Officer's (CIO) Capability Planning Guidance (CPG). The DoD CIO vision is "to reduce sustainment costs and improve warfighting capability over time."

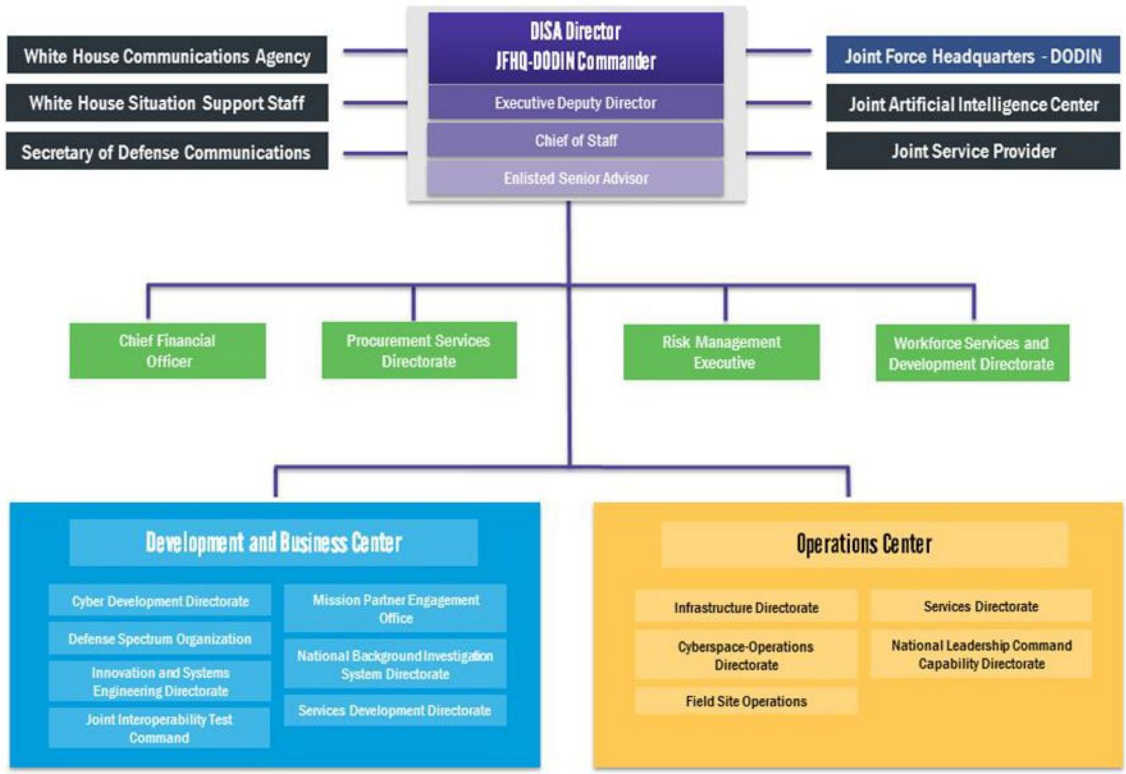
DISA serves the needs of the President, Vice President, Secretary of Defense, Joint Chiefs of Staff, COCOMs, and other DoD components during peace and war. In short, the DISA provides global net-centric solutions in the form of networks, computing infrastructure, and enterprise services to support information sharing and decision making for the Nation's warfighters and those who support them in the defense of the nation. The DISA is the only combat support agency charged with connecting the force by linking processes, systems, and infrastructure to people.

DISA's roots go back to 1959 when the Joint Chiefs of Staff (JCS) requested the Secretary of Defense (SECDEF) approve a concept for a joint military communications network to be formed by consolidation of the communications facilities of the Military Departments. This would ultimately lead to the formation of the Defense Communications Agency (DCA), established on 12 May 1960, with the primary mission of operational control and management of the Defense Communications System (DCS). On 25 June 1991, DCA underwent a major reorganization and was renamed the Defense Information Systems Agency to reflect its expanded role in implementing the DoD's Corporate Information Management (CIM) initiative, and to clearly identify DISA as a combat support agency. DISA established the Center for Information Management to provide technical and program execution assistance to the Assistant Secretary of Defense (C3I) and technical products and services to DoD and military components. DISA's role in DoD information management continued to expand with implementation, in September 1992, of several Defense Management Report Decisions (DMRD), most notably DMRD 918.

DMRD 918 created the Defense Information Infrastructure (DII), and directed DISA to manage and consolidate the Services' and DoD's information processing centers into 16 mega-centers. In FY 2018, the organization that came to be known as the Joint Service Provider (JSP) declared full operational capability and moved into its new place in the Defense Department's organizational chart as a subcomponent of DISA. It marked a major expansion of mission and budget authority for DISA, which now controls the funding and personnel that provide most information technology (IT) services for the Pentagon and other DoD headquarters functions in the National Capital Region. DISA continues to offer DoD information systems support, taking data services to the forward deployed warfighter.

The DISA Mission, Vision, Ethos, Creed, and Core Values

Organization: To fulfill its mission and meet strategic plan objectives, DISA operates under the direction of the DoD Chief Information Officer (CIO) who reports directly to the Secretary of Defense. The organizational structure for DISA as of July 2019 is depicted below:



The Agency is budgeted to support the IT needs and requirements of the entire Defense Department, including the offices of the Secretary of Defense and of the Chairman and Vice Chairman of the Joint Chief of Staff; the Joint Staff; military services; combatant commands; and Defense agencies. DISA also provides support to the White House and many federal agencies through a number of capabilities and initiatives.

DISA's Appropriated Budget

Through its appropriated budget, DISA is funded by Congress through the National Defense Authorization Act, the U.S. federal law specifying the budget and expenditures for DoD, and defense appropriations bills authorizing DoD to spend money. This budget enables the Agency to implement the White House's national security strategy, the secretary's planning and programming guidance, and the initiatives of the DoD CIO.

DISA aligns its program resource structure across six mission areas, which reflect DoD's goals and allows DISA to execute its core missions and functions:

1. "Transition to the Net-Centric Environment" funds capabilities and services that transform the way that DoD shares information by making data continuously available in a trusted environment. This mission area includes enterprise services, engineering services, and technical strategies developed by DISA's chief technology officer (CTO).

2. "Eliminate Bandwidth Constraints" focuses on capabilities and services that build and sustain the Global Information Grid (GIG) transport infrastructure, while eliminating bandwidth constraints and rapidly surging to meet demands. Capabilities funded in this category include the Pathways Program, DoD Teleport Program, Defense Spectrum Organization (DSO) activities, and Defense Information System Network (DISN) enterprise activities, such as non-recurring costs for commercial circuits, commercial satellites, and special communications requirements.

3. "GIG Network Operations and Defense" funds the operation, protection, defense, and sustainment of the enterprise infrastructure and information-sharing services, as well as enabling command and control. This mission area includes funding for network operations (NetOps); the information assurance/public key infrastructure (IA/PKI) program; cybersecurity initiatives; and budgets for DISA's field offices, which support the combatant commands, and for the Joint Staff Support Center (JSSC), which supports the Chairman, Vice Chairman, and Joint Chiefs of Staff in the Pentagon.

4. "Exploit the GIG for Improved Decision Making" focuses on transitioning to DoD enterprise-wide capabilities for communities of interest, such as command and control, and combat support that exploit the GIG for improved decision-making. This mission area funds the Global Command and Control System – Joint (GCCS-J) program, Global Combat Support System – Joint (GCSS-J) program, and senior leader and coalition information-sharing activities.

5. "Deliver Capabilities Effectively/Efficiently" finances the means by which the agency effectively, efficiently, and economically delivers capabilities based on established requirements. This area funds the command staff and the personnel costs for DISA's shared service units.

6. "Special Mission Areas" enables the Agency to execute special missions to provide the communications support required by the president as Commander-in-Chief, including day-to-day management, fielding, operation, and maintenance of communications and information technology. The White House Communications Agency (WHCA) and the Communications Management Control Activity (CMCA) in the Network Services Directorate are budgeted out of this mission area.

DISA's Defense Working Capital Fund (DWCF)

DISA also operates a DWCF budget. Unlike the appropriated budget, which is provided through direct congressional appropriations, the working capital fund (WCF) relies on revenue earned from providing IT and telecommunications services and capabilities to finance specific operations. Mission partners order capabilities or services from DISA and make payment to the WCF when the capabilities or services are received.

A DWCF business unit is not profit-oriented and therefore, only tries to break even, charging prices set using the full-cost-recovery principle, which accounts for all costs — both direct and indirect (or "overhead") costs. It is intended to generate adequate revenue to cover the full cost of its operations and to finance the fund's continuing operations without fiscal year limitation. DISA operates the information services activity within the DWCF. This activity consists of two main components. The first component includes two lines of service, telecommunications services and enterprise acquisition services. The second component includes computing services.

The major element of the telecommunication services component is the DISN, which provides interoperable telecommunications connectivity and accompanying services that allow the department to plan and operate both day-to-day business and operational missions through the dynamic routing of voice, data, text, still and full-motion imagery, and bandwidth services. Some DISN services are provided to mission partners in predefined packages and sold on a subscription basis via the DISN Infrastructure Services, while others are made available on a cost-reimbursable basis.

The line of service for enterprise acquisition services enables the department to procure best value, commercially competitive IT services and capabilities through DISA's Defense IT Contracting Organization (DITCO). DITCO provides complete contracting support and services.

The computing services component of DISA's DWCF activities comprises the Defense Enterprise Computing Centers (Ecosystem), which provide mainframe and server-processing operations, data storage, production support, technical services, and end-user assistance for command and control, combat support, and enterprise applications across DoD. These facilities and functions provide a robust enterprise computing environment to more than four million users through 20 mainframes, more than 16,600 servers, 79,000 terabytes of storage, and approximately 309,000 square feet of raised floor.

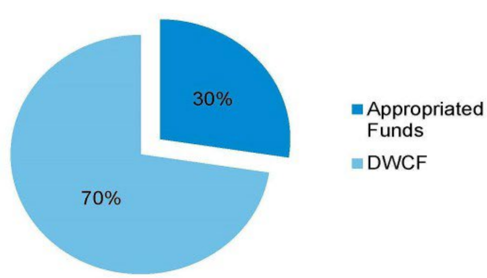
Resources: DISA is a combat support agency of the Department of Defense (DoD) with a 10.9 billion-dollar annual budget.

BUDGET

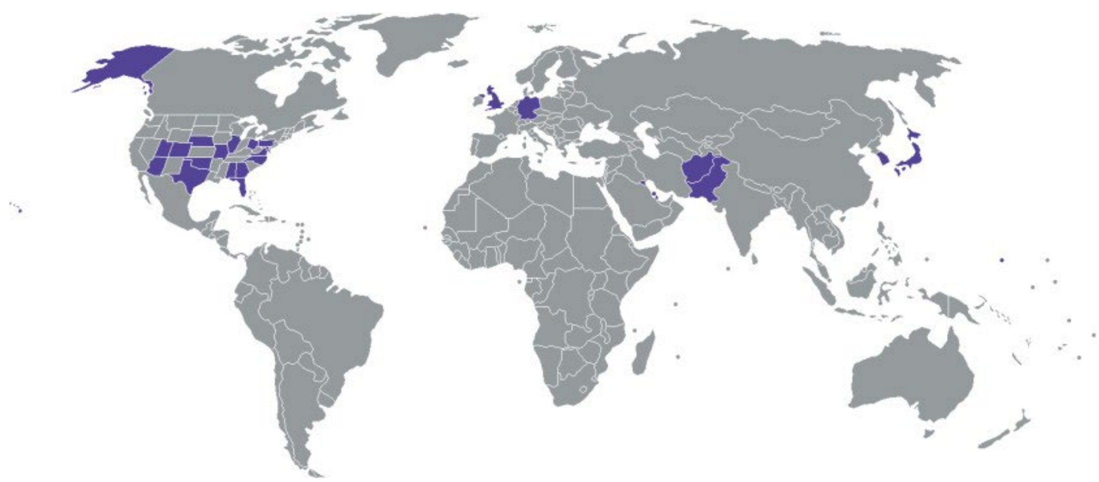
Appropriated
(Based on FY19 President's Budget - Enacted)
Total Appropriated: $3,230.5M

Defense Working Capital Fund (DWCF)
(Based on FY19 President's Budget)
Total DWCF: $7,684.3M

**Updated April 2019*



Global Presence: DISA is a global organization of approximately 7,000 civilian employees; approximately 1,700 active duty military personnel from the Army, Air Force, Navy, and Marine Corps; and over 10,000 defense contractors. DISA's headquarters is at Fort Meade, MD and has a presence in 25 states and the District of Columbia within the USA, and in 7 countries, and Guam (US Territory), with 55% of its people based at Fort Meade and the national capital region (NCR), and 45% based in field locations. In addition, the following organizations are a part of DISA: White House Communications Agency; White House Situation Support Staff; Joint Information Environment (JIE) Technical Synchronization Office; Defense Spectrum Organization; Defense Information Technology Contracting Organization; Joint Interoperability Test Command; and the Joint Force Headquarters DoDIN. DISA provides a core enterprise infrastructure of networks, computing centers, and enterprise services (internet-like information services) that connect 4,300 locations reaching 90 nations supporting DoD and national interests. The following map portrays the global presence of DISA operations.



Performance Goals, Objectives & Results

DISA is charged with the responsibility for planning; engineering; acquiring; testing; fielding; and supporting global net-centric information and communications solutions to serve the needs of the President, the Vice President, the Secretary of Defense, and the DoD Components under all conditions of peace and war. The challenges faced by the Department impact DISA directly in achieving success with respect to these responsibilities. DISA provides, operates, and assures command and control, information-sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to joint warfighters, national-level leaders, and other mission and coalition partners across the full spectrum of operations. DISA's number one priority is enabling information superiority for the warfighter and those who support them. Warfighters on all fronts require DISA's continued support because immediate connection, sharing, and assured access to information capabilities are essential to our mission partners' operational success.

DISA Strategic Goals and Objectives as outlined in the 2019-2022 Strategic Plan (Version 1) include:

Strategic Goals	Strategic Objectives
Operate and Defend	1.1 Modernize the Infrastructure 1.2 Enhance Operations
Adopt, Buy, and Create Solutions	2.1 Optimize for the Enterprise 2.2 Strengthen Cybersecurity 2.3 Drive Innovation
Enable People and Reform the Agency	3.1 Enable People 3.2 Reform the Agency

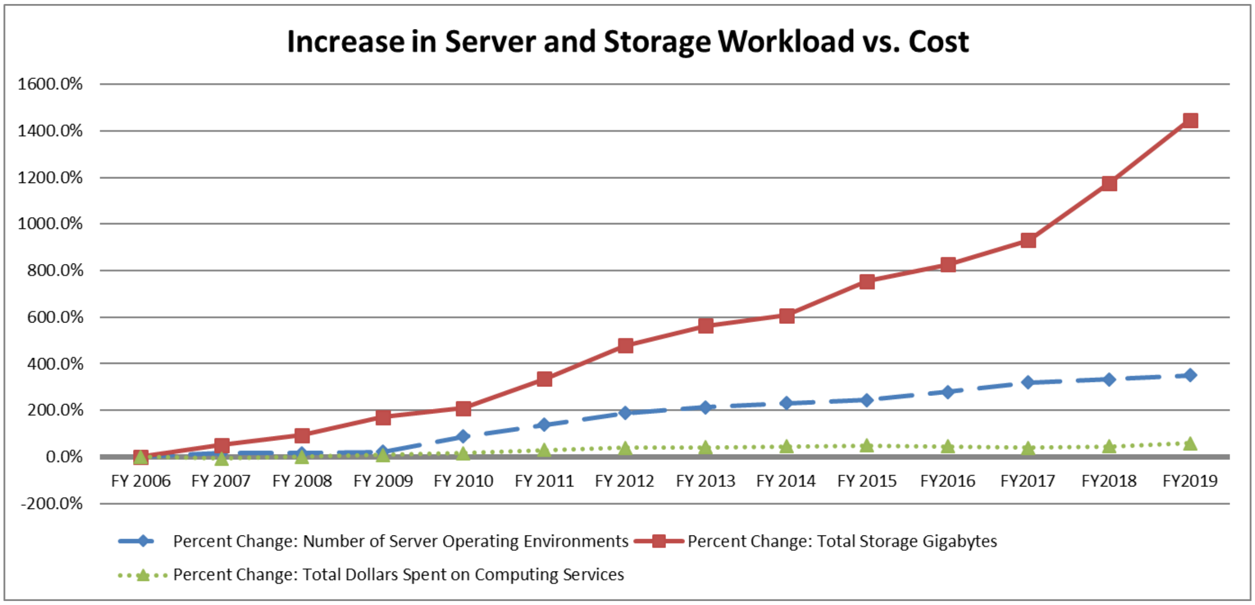
DISA's strategic plan framework outlines mutually reinforcing programs, projects, and initiatives that link the three goals to DISA's mission. To operate and defend, adopt, buy, and create solutions, and enable people and reform of the agency, ensures DISA conducts DoD Information Network (DoDIN) operations for the joint warfighter to enable lethality across all warfighting domains in defense of the nation.

Program Performance

DISA's information services play a key role in supporting the DoD's operating forces. As a result, DISA is held to high performance standards. In many cases, performance measures are detailed in Service Level Agreements (SLAs) with individual customers that exceed the general performance measures discussed in the following paragraphs.

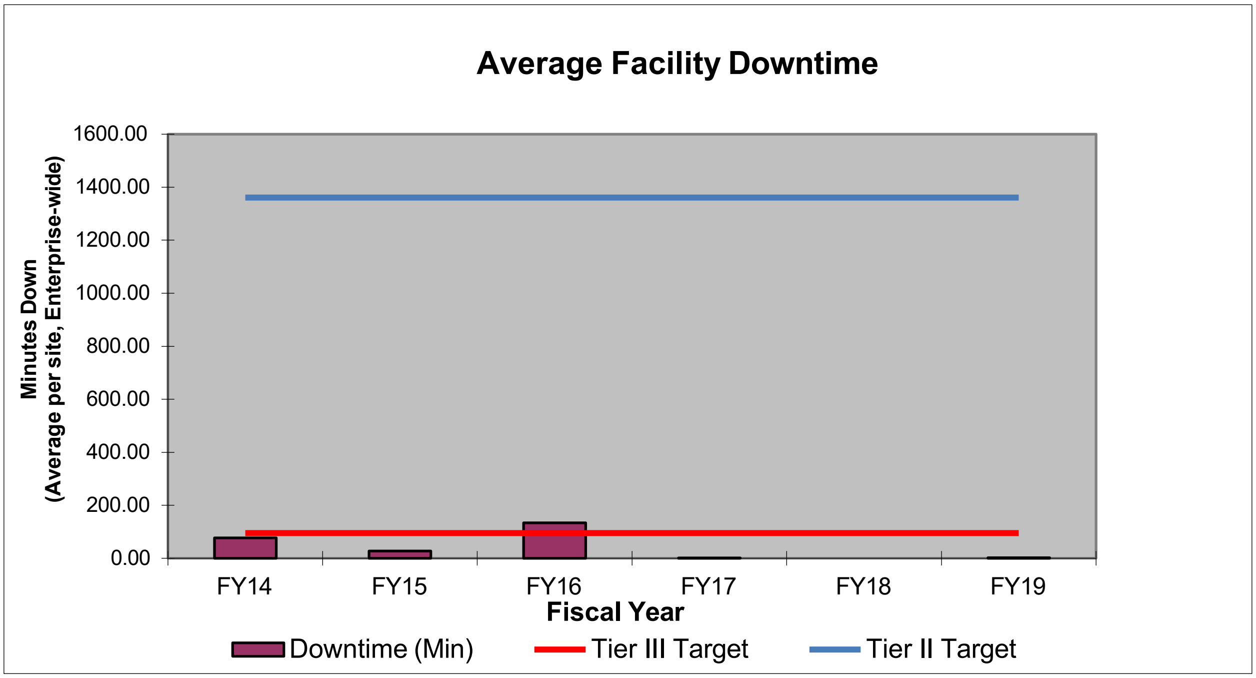
Computing Services Performance Measures

As shown in the subsequent table, demand for DISA's server and storage computing services has grown significantly since FY 2006. Since that year, the number of customer driven server operating environments (OEs) has increased by 350 percent, and total storage gigabytes have increased by 1,864 percent. Over the same timeframe, the cost to deliver all computing services has increased by only 58 percent. In short, customers are demanding considerably more services and are at the same time benefiting from DISA's unique ability to leverage robust computing capacity at the DISA Datacenters.



The Computing Service business area tracks its performance and results through the Agency Director's Quarterly Performance Reviews. There are two key operational metrics which are presented to the DISA Director in conjunction with regular, recurring Quarterly Program Reviews. These two metrics depicted in the table below, reflect the availability of critical applications in the Computing Centers. The first metric, "Core Data Center Availability," expressed as a percentage of availability, represents application availability from the end user's perspective and includes all outages or downtime regardless of root cause or problem ownership. Tier II requires achieving 99.75% availability, which results in about 1,361 minutes of downtime per year. Tier III, the standard for all DoD-designated Core Data Centers, requires achieving 99.98% availability, which results in about 95 minutes of downtime per year. A continuing series of electrical and mechanical investments in the DISA DECC facilities since 2008 have resulted in a steady decline in facility downtime. The second metric, "Capacity Service Contract Equipment Availability" represents DISA's equipment availability by technology, i.e., how well DISA is executing its responsibilities exclusive of factors outside the Agency's control such as last mile communications issues, base power outages or the like. The Threshold refers to system uptime and capacity availability for intended use; this is the level required by contract. The Objective is the value agreed on by the vendor and the government to be an ideal target, and Actual is reported by the vendor monthly.

Core Data Center Availability

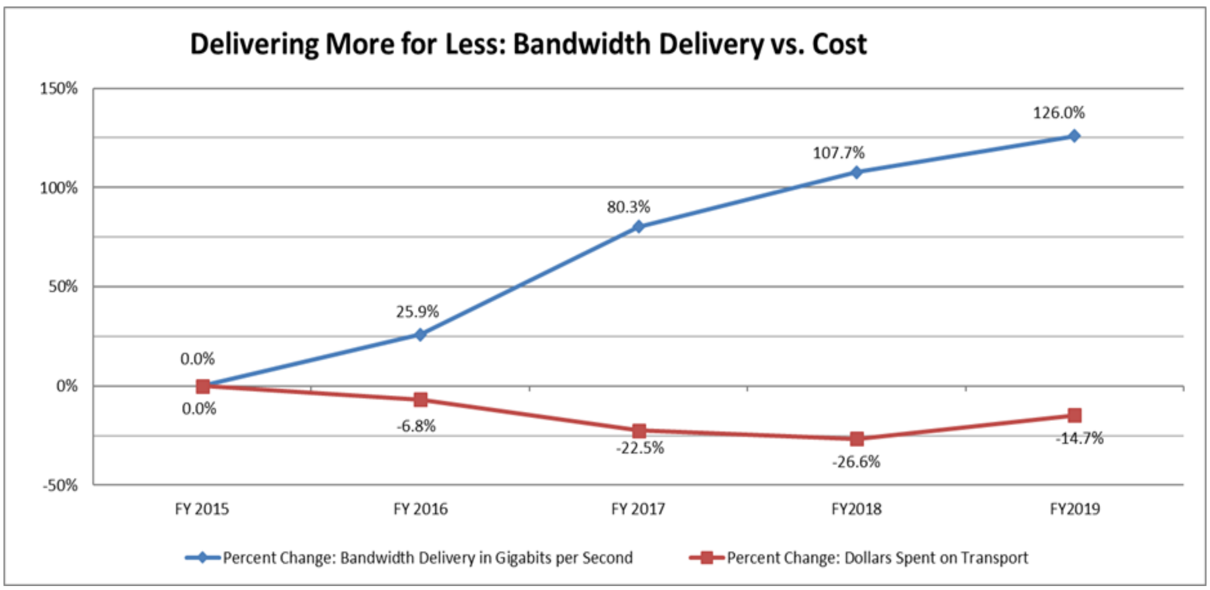


Capacity Service Contract Equipment Availability

	Threshold	Objective	Actual
IBM System z Mainframe	99.95%	99.99%	100%
Unisys Mainframe	99.95%	99.99%	99.999%
P Series Server	99.95%	99.99%	100%
SPARC Server	99.95%	99.99%	100%
X86 Server	99.95%	99.99%	99.975%
Itanium	99.95%	>99.95%	99.999%
Storage	99.95%	>99.95%	99.999%
Communications Devices	99.95%	>99.95%	99.98%

Telecommunications Services Performance Measures

The Telecommunications Services business area provides a set of high quality, reliable, survivable, and secure telecommunications services to meet the Department's command and control requirements. The major component of Telecommunications Services is the DISN, a critical component of the DoDIN that provides the Warfighter with essential access to timely, secure, and operationally relevant information to ensure the success of military operations. The DISN is a collection of robust, interrelated telecommunications networks that provide assured, secure, and interoperable connectivity for the DoD, coalition partners, national senior leaders, combatant commands, and other federal agencies. Specifically, the DISN provides dynamic routing of voice, data, text, imagery (both still and full motion), and bandwidth services. The robustness of this telecommunications infrastructure has been demonstrated by DISA's repeated ability to meet terrestrial and satellite surge requirements in Southwest Asia while supporting disaster relief and recovery efforts throughout the world. Overall, the DISN provides a lower customer price through bulk quantity purchases, economies of scale and reengineering of current communication services. In spite of this continuing upward trend in demand, DISA has delivered transport services at an overall cost decrease to mission partners, as shown in the subsequent chart:



The previous chart compares the bandwidth delivery, including multiprotocol label switching (MPLS) connections to Transport costs. Since FY 2015, DISA has increased transport bandwidth delivery capacity 126.0 percent to meet customer demand. The increase is driven by internet traffic, DoD Enterprise Services, full motion video collaboration, and Intelligence, Surveillance and Reconnaissance (ISR) requirements. Over the same timeframe, transport costs associated with the physical connections between sites have decreased by -14.7 percent. Additionally, DISA has been able to keep these costs down without any degradation in service. The DISN continues to meet or exceed network performance goals for circuit availability and latency, two key performance metrics.

The DISN has operating metrics tied to the Department's strategic goals of information dominance. These operational metrics include the cycle time for delivery of data and satellite services as well as service performance objectives such as availability, quality of service, and security measures. Additionally, the Information Technology Enterprise Services Roadmap sets a DISN performance target of 99.997% operational availability at all Joint Staff-validated locations. The DISA is working to meet the intent of this guidance through the evolving Joint Information Environment architecture and by building out the network as necessary to provide a growing number of enterprise services. These categories of metrics have guided the development of the Telecommunication Services budget submission. Shown below are major performance and performance improvement measures:

SERVICE OBJECTIVE	FY 2019 Estimated	FY 2020 Operational Goal	FY 2021 Operational Goal
Non-Secure Internet Protocol Router Network access circuit availability	98.50%	98.50%	98.50%
Secure Internet Protocol Router Network latency (measurement of network delay) in the continental United States	Not to exceed 350 milliseconds	Not to exceed 350 milliseconds	Not to exceed 350 milliseconds
Optical Transport network availability	99.50%	99.50%	99.50%

Enterprise Acquisition Services Performance Measures

The Enterprise Acquisition Services (EAS) business area is the Department's ideal source for procurement of best-value and commercially competitive information technology. EAS provides contracting services for information technology and telecommunications acquisitions from the commercial sector and provides contracting support to the DISN programs, as well as to other DISA, DoD, and authorized non-Defense customers. These contracting services are provided through the DISA's DITCO and include acquisition planning, procurement, tariff surveillance, cost and price analyses, and contract administration. These services provide end-to-end support for the mission partner. The following performance measures apply for EAS:

SERVICE OBJECTIVE	FY 2020 Estimated Actual	FY 2021 Operational Goal	FY 2022 Operational Goal
Percent of total eligible contract dollars completed	73.00%	73.00%	73.00%
Percent of total eligible contract dollars awarded to small businesses	28.00%	28.00%	28.00%

*FY 2020 and FY 2021 goals for percent of total eligible contract dollars competed are estimates based on the released FY 2019 goal. The goals have not yet been released by the Defense Procurement Acquisition Policy (DPAP).

In addition to the program performance measures outlined above, DISA has increased accountability of its assets by linking performance standards to internal control standards. Each Senior Executive Service member at DISA has included in their performance appraisal a standard to achieve accountability of property. This standard has filtered down to many of the managers across the Agency. This increased focus on accountability has had a significant impact on the focus these leaders have in the critical area of safeguarding assets.

Analysis of Entity's Financial Statements

Background

DISA prepares annual financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. The accompanying financial statements and footnotes are prepared in accordance with Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.* DISA records accounting transactions on both an accrual and budgetary basis of accounting. Under the accrual method, revenue is recognized when earned and costs/expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Since FY 2005, DISA has had an established Audit Committee to oversee progress towards financial management reform and audit readiness. DISA leadership participates in Audit Committee meetings to fully support the audit and in order to maintain senior leader tone-at-the-top. The current mission of the DISA Audit Committee is to serve in an advisory role to the DISA senior managers. The committee is tasked with developing, raising, and resolving matters of financial compliance and internal controls with the purpose of ensuring DISA's consistent demonstration of accurate and supportable financial reports. The committee develops and enforces guidance established for this purpose.

General Fund (GF) Financial Highlights

The following section provides an executive summary and a brief description of the nature of each GF financial statement, significant fluctuations, and significant balances to help clarify their link to DISA operations.

Executive Summary - The DISA General Fund Financial Statements for the quarter ended September 30, 2019 reflect a fund that had an increase in overall appropriations in FY 2019 compared to FY 2018. See table below for comparative data for appropriations received between these two fiscal years.

Figure 1 – Appropriations Received

(thousands)

	9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
O&M (0100)	$ 2,186,198	$2,059,810	$ 126,387	6%
PROC (0300)	$ 789,693	$ 719,245	$ 70,448	10%
RDT&E (0400)	$ 326,112	$ 270,820	$ 55,292	20%
MILCON (0500)	$ (7,195)	$ 1,175	$ (8,370)	-712%
Consolidated	$ 3,294,808	$3,051,050	$ 243,757	8%

Consolidated Balance Sheet

The balance sheet presents amounts available for use by DISA (assets) against amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets

Total assets of $3.8 billion are comprised primarily of Fund Balance with Treasury ($3 billion), intragovernmental accounts receivable ($69.7 million), and Property, Plant & Equipment (PP&E) ($724.1 million).

Fund Balance with Treasury - The following chart displays FY-to-Date (FYTD) net cash flow from current year operations (collections less disbursements) reported to Treasury for FY 2019 and FY 2018 by appropriation presented in a comparative manner:

Figure 2 - Fund Balance with Treasury

(thousands)

	9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
O&M (0100)	$ 973,215	$ 951,680	$ 21,536	2%
PROC (0300)	$ 1,668,122	$ 1,725,382	$ (57,260)	-3%
RDT&E (0400)	$ 292,225	$ 269,622	$ 22,603	8%
MILCON (0500)	$ 27,149	$ 37,852	$ (10,703)	-28%
Consolidated	$ 2,960,711	$ 2,984,536	$ (23,825)	-1%

- Amounts recorded in the general ledger for Fund Balance with Treasury (FBwT) have been 100% reconciled to amounts reported in the Defense Finance and Accounting Service (DFAS) Cash Management Report (CMR), representing DISA General Fund's portion of the TI97 appropriated account balances reported by Department of Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level. The consolidated undistributed balance as of September 30, 2019 was $110.3 million (compared to $9.4 million in 4th Q 2018). The fluctuation of the undistributed amounts between these fiscal years is attributable to year-end clean up and systems conversion.

General Property, Plant and Equipment (PP&E), Net – DISA GF General PP&E consists primarily of leasehold improvements, equipment, software, and Construction-In-Progress (CIP) used in support of Agency missions. General PP&E balances by appropriation as of September 30, 2019 and 2018 are as follows:

Figure 3 - General PP&E, Net

(thousands)

	9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
O&M (0100)	$ 372,207	$ 378,715	$ (6,508)	-2%
PROC (0300)	$ 337,658	$ 108,657	$ 229,001	211%
RDT&E (0400)	$ 4,101	$ 3,681	$ 420	11%
MILCON (0500)	$ 10,104	$ 9,382	$ 722	8%
Consolidated	$ 724,070	$ 500,435	$ 223,635	45%

- Procurement (PROC) (0300) General PP&E increased by $229.0 million (211%) due to a process change in accounting. In past years, all costs that transferred from GF to DISA WCF were directly transferred to DISA WCF when the expense was processed. The new method of accounting allows for cost accumulation in the GF construction-in-progress account until the equipment is placed into use. Once in use, costs are transferred to WCF Telecommunication Services and Enterprise Acquisition Services (TSEAS).

- Research, Development, Test & Evaluation (RDT&E) (0400) General PP&E increased by $420 thousand (11%) to fund the Virtual Operating Environment at Ft. Huachuca, AZ.

Liabilities

As of 30 September 2019, DISA GF reported total liabilities of $314.1 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The largest component of liabilities as of 30 September 2019 was $272.7 million in liabilities covered by budgetary resources comprised primarily of $199.6 million in intragovernmental accounts payable driven by the large amount of services and goods procured from DoD/federal trading partners. Intragovernmental and public accounts payable balances by appropriation as of September 30, 2019 and 2018 are as follows:

Figure 4 - Accounts Payable

(thousands)

	9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
O&M (0100)				
Intragov.	$ 98,215	$ 118,602	$ (20,387)	-17%
Public	$ 10,907	$ (2,357)	$ 13,263	-563%
PROC (0300)				
Intragov.	$ 94,446	$ 38,293	$ 56,153	147%
Public	$ 30,585	$ 3,648	$ 26,937	738%
RDT&E (0400)				
Intragov.	$ 5,195	$ 32,966	$ (27,771)	-84%
Public	$ 1,138	$ 8,870	$ (7,732)	-87%
MILCON (0500)				
Intragov.	$ 1,772	$ -	$ 1,772	100%
Public	$ (592)	$ (4)	$ (589)	16745%
Consolidated				
Intragov.	$ 199,629	$ 189,861	$ 9,768	5%
Public	$ 41,038	$ 10,157	$ 30,881	314%
Consolidated	$ 240,665	$ 200,019	$ 40,647	21%

- O&M (0100) Intragovernmental A/P decrease of $20.4 million is primarily driven by a drawdown of legacy accruals related to business between DISA GF and DISA WCF.

- O&M (0100) Public A/P balance in FY 2018 was abnormal due to reclassification of A/P from Federal to Non-Federal in order to align Trading Partners. Prior to the adjustment, the balance of Public A/P was a normal balance of $10.7 million, which is in line with the balance at the end of FY 2019.

- PROC (0300) Intragovernmental A/P increase of $56.2 million is driven by a $57.8M increase in business between the Infrastructure Executive Office and TSEAS for technical refresh of IT hardware and equipment.

- PROC (0300) Public A/P increase of $26.9 million from FY 2018 is due to additional procurement funding received and utilized for new projects, as well as improved trading partner mapping in FY 2019.

Consolidated Statement of Net Cost

The Statement of Net Cost represents the net cost of programs and organizations of DISA GF that are supported by appropriations or other means. The GF consolidated net cost for the Agency in FY 2019 totaled $3.2 billion and represented an overall increase of

$725.4 million (29%) from the prior year with an increase in gross cost of $776.7 million, less an increase in earned revenue of $51.3 million. Net cost by appropriation as of September 30, 2019 and 2018 are as follows:

Figure 5 - Net Cost of Operations

(thousands)

	9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
O&M (0100)	$ 2,281,445	$ 1,860,309	$ 421,136	23%
PROC (0300)	$ 639,233	$ 363,265	$ 275,968	76%
RDT&E (0400)	$ 277,005	$ 251,711	$ 25,295	10%
MILCON (0500)	$ 3,904	$ 942	$ 2,962	314%
Consolidated	$ 3,201,587	$ 2,476,227	$ 725,361	29%

- The increase in gross costs is comprised of a $486.4 million Operations and Maintenance (O&M) increase to intra-entity imputed costs ($174.9 million) and operating expenses/program costs ($311.5 million); as well as a $293.7 million PROC increase to operating expenses/program costs.

- The net increase in earned revenue from services provided is comprised of a $65.3 million increase in O&M, $2.9 million decrease in PROC, and an $11.1 million decrease in RDT&E from FY 2018 to FY 2019.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position (SCNP) presents the change in net position during the reporting period. The DISA GF net position is affected by changes to its two components, Cumulative Results of Operations incorporating Net Cost of Operations to include Other Financing Sources (transfers in/out without reimbursement and imputed financing from costs absorbed by others) and Unexpended Appropriations consisting primarily of appropriations received. The SCNP format displays both components of net position separately to enable the user to better understand the nature of changes to net position as a whole.

- Appropriations received increased $248.2 million primarily for increases of $129.3 million in O&M and $108.6 million in Procurement funding for FY 2019.

- Other Financing Sources, Transfers in/out without reimbursement increased by a net $163.8 million. The driver was due to the transfer back of PP&E from the WCF to the GF. These transfers were completed in order to align Defense Agencies Initiative (DAI) with Defense Property Accountability System (DPAS) and to implement a new accounting process. For FY 2019 DISA General Fund implemented a new accounting process for PROC (0300). In prior years, DISA GF transferred costs to DISA WCF at the time of expense even if assets were not yet put into use. Beginning in FY 2019, DISA GF will now accumulate costs in the GF CIP account until the equipment is actually placed into use, at which time the costs will be transferred to DISA WCF.

- Other Financing Sources, Imputed financing from costs absorbed by others increased $177.2 million that is primarily due to an increase in imputed cost related to employee benefits.

Combined Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) provides information on the budgetary resources available to DISA as of 30 September 2019, and 30 September 2018, and the status of those budgetary resources. The results and variances of key amounts reported in the SBR not described elsewhere are as follows:

Figure 6 - Statement of Budgetary Resources

(thousands)

		9/30/2019		9/30/2018		Inc./(Dec.)	% Chg.
O&M (0100)							
Obligations Incurred	$	2,430,178	$	2,231,057	$	199,122	9%
Unobligated Balances	$	80,632	$	83,331	$	(2,699)	-3%
Undelivered Orders	$	890,067	$	844,888	$	45,179	5%
Unfilled Customer Orders	$	(74,131)	$	(101,052)	$	26,921	-27%
PROC (0300)							
Obligations Incurred	$	937,218	$	934,353	$	2,864	0%
Unobligated Balances	$	305,215	$	295,934	$	9,281	3%
Undelivered Orders	$	1,252,226	$	1,400,555	$	(148,329)	-11%
Unfilled Customer Orders	$	(9,915)	$	(9,637)	$	(278)	3%
RDT&E (0400)							
Obligations Incurred	$	364,114	$	335,765	$	28,349	8%
Unobligated Balances	$	124,246	$	68,471	$	55,775	81%
Undelivered Orders	$	219,149	$	208,332	$	10,817	5%
Unfilled Customer Orders	$	(55,786)	$	(51,805)	$	(3,981)	8%
MILCON (0500)							
Obligations Incurred	$	9,544	$	1,062	$	8,482	798%
Unobligated Balances	$	13,316	$	30,026	$	(16,711)	-56%
Undelivered Orders	$	12,653	$	7,829	$	4,824	62%
Unfilled Customer Orders	$	-	$	-	$	-	0%
Consolidated							
Obligations Incurred	$	3,741,054	$	3,502,238	$	238,816	7%
Unobligated Balances	$	523,409	$	477,762	$	45,647	10%
Undelivered Orders	$	2,374,095	$	2,461,604	$	(87,509)	-4%
Unfilled Customer Orders	$	(139,832)	$	(162,494)	$	22,662	-14%

New Obligations and Upward Adjustments:

- The change in obligations incurred is consistent with the changes in the level of funding in each of the appropriations from FY 2018 to FY 2019 and the trends are consistent with the trends described for Gross Cost from the Statement of Net Cost for the O&M (0100), PROC (0300), RDT&E (0400), and Military Construction (MILCON) (0500) accounts.
- O&M (0100) obligations incurred increase is driven by a $180.3 million increase in delivered and undelivered orders (paid and unpaid) for other contractual services, specifically advisory and assistance services.
- RDT&E (0400) obligations incurred increase is driven by a $24.7 million increase in delivered (paid) and undelivered (unpaid) orders for contractual advisory and assistance services.
- MILCON (0500) obligations incurred increase is driven by $8.0 million for undelivered (unpaid) and delivered (paid and unpaid) orders for the improvement of land and structures.

Unobligated Balance, End of Year:

- O&M (0100) unobligated balance net decrease is driven by a $8.2 million decrease in allotments – expired authority, and a $5.5 million increase in resources available for obligation or commitment (realized resources).
- PROC (0300) unobligated balance net increase is driven by a $20.4 million increase in resources available for obligation or commitment (realized resources), and an $11.4 million decrease in commitments subject to apportionment.
- RDT&E (0400) unobligated balance increase is driven by a $37.7 million increase in resources available for obligation or commitment (realized resources), a $15.5 million increase in commitments subject to apportionment, and a $2.6 million increase in allotments – expired authority.
- MILCON (0500) unobligated balance decrease is driven by a $9.9 million decrease in commitments subject to apportionment, and a $6.0 million decrease in allotments – expired authority.

Management Systems, Controls & Compliance with Laws and Regulations

Management Assurances

Our management structure, policies and procedures, and our Internal Control reviews of our key mission processes contribute to the reasonable assurance that our internal controls are operating as intended. Our Governance Board and Internal Control Structure along with the Managers' Internal Control Program (MICP) is managed through a three tiered approach, as described in subsequent paragraphs. The first tier is supported by the DISA Senior Assessment Team (SAT), which provides guidance and oversight to the MICP. The second tier is supported by the subject-matter expert team, the Internal Control (IC) team, and the third tier is supported by the Assessable Unit Managers (AUMs) who manage at the Program/Directorate level within the organization. The SAT and Internal Control teams maintain a charter that is available on the DISA webpage. Each document outlines the mission, personnel, roles and responsibilities of the team. AUMs are appointed in writing each year, and the appointment letter delineates the role and responsibilities that AUMs are charged with.

DISA delegates authority only to the extent required to achieve objectives and management evaluates the delegation for proper segregation of duties to prevent fraud, waste, and abuse. In addition, DISA relies on external stakeholders, such as DFAS as our accounting data processor, bill payer, and payroll processor to better achieve our mission as documented in a Service Level Agreement (SLA).

The DISA Inspector General (IG) maintains a hotline for the anonymous reporting of ethics and integrity issues that is available to employees 24 hours a day, 7 days a week. Additionally, the DISA IG conducts reviews and inspections to identify or prevent instances of fraud, waste, and abuse.

The Office of Chief Financial Officer (OCFO)/Comptroller conducts the testing and reports on the overall Internal Controls Over Financial Reporting (ICOFR) for the Agency. The DISA Risk Management Executive (RME)/Chief Information Officer (CIO) conducts the testing and reports results of the Internal Controls Over Financial Systems (ICOFS) for the Agency. Agency AUMs perform testing and report results of the Internal Controls over Non-Financial Operations (ICONO).

DISA's senior management evaluated the system of internal control in effect during FY 2019, according to the guidance in OMB Circular No. A-123 and the Government Accountability Office (GAO) Green Book that included an evaluation of whether the system of internal controls for DISA is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal controls of DISA are to provide reasonable assurance of:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations; and

- Financial information systems compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208).

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

DISA management evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of internal controls of DISA, in effect as of the date of this MD&A, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Using the following process, DISA evaluated its system of internal controls and maintains sufficient documentation/audit trail to support its evaluation and level of assurance.

As previously discussed, DISA manages the MICP through a three-tiered approach. The first tier is supported by the DISA Senior Assessment Team (SAT), which provides guidance and oversight to the MICP. In FY 2019, the DISA Director signed a “Tone-at-the-Top” memo that defines management’s leadership and commitment towards an effective MICP: openness, honesty, integrity, and ethical behavior. The memo directed the Agency to ensure a risk-based and results-oriented program in alignment with the GAO Green Book and OMB A-123. The tone at the top is set by all levels of management and has a trickle-down effect to all employees. The second tier, supported by a subject matter expert team, coordinates requirements with Office of Secretary of Defense (OSD) Comptroller regarding the MICP, in addition to providing guidance, oversight, and validation in accordance with OSD Directives to the AUMs. DISA provided internal control training for the AUMs in January 2019 and conducted additional workshops in February 2019. The third tier is supported by the AUMs who manage at the program/directorate level within the organization. The AUMs are responsible for identifying material assessable units along with identifying and documenting the key controls within their assessable unit AU(s). The MICP team compiles AU submissions for the Agency’s Statement of Assurance (SOA), communicates OSD requirements to leadership, facilitates information sharing between AUMs, and consolidates results.

For the 2019 reporting cycle, DISA identified 13 AUs: Office of the Chief Financial Officer (OCFO); Component and Acquisition Executive (CAE); Development and Business Center (DBC); Chief of Staff (DOC); Defense Spectrum Organization (DSO); Inspector General (IG); Joint Force Headquarters DOD IN (JFHQ-DODIN); Joint Service Provider (JSP); Operations

Center (OC); Procurement Services Directorate (PSD); Risk Management Executive (RME); White House Communications Agency (WHCA); and Workforce Services and Development Directorate (WSD). Most AUs are led by at least one member of the Senior Executive Service (SES) or military flag officer, and carry a distinct mission within DISA, which in turn causes the AU to have unique operational risks that require evaluation.

DISA's FY 2019 assessment identified 16 material weaknesses (MWs) which roll into three primary focus areas: Fund Balance with Treasury (9 MWs), aged transactions (4 MWs), and Hosting Services (3 MWs). DISA can provide reasonable assurance "except for" the MWs noted, that internal controls over operations, reporting, and compliance are operating effectively as of 30 September 2019.

Internal Controls over Operations – DISA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the Federal Managers Financial Integrity Act (FMFIA). Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of 30 September 2019.

Internal Controls over Financial Systems – DISA 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. Based on the results of this assessment, DISA can provide reasonable assurance, except for the non-conformances reported in the "Significant Deficiencies and Material Weaknesses Template" of the SOA, that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of 30 September 2019.

The legacy Washington Headquarters Services Allotment Accounting System (WAAS) was replaced by the DAI and legacy Financial Accounting Management Information System - FAMIS) TSEAS Enterprise Resource Planning (ERP) was replaced by FAMIS EAS Modernization in October 2018. The implementation of these ERP approved systems resolved the compliance issues associated with the legacy systems. Finally, we considered the FFMIA compliance Determination Framework to determine whether DISA complies with the Section 803(a) requirements of FFMIA. Some of these key indicators include the fact that DISA consistently provides timely and reliable financial statements to OMB within 21 calendar days at the end of the first through third quarters and unaudited financial statements to OMB, GAO, and Congress by 15 November each year. The DISA has not reported anti-deficiency violations in more than a decade and we continue to demonstrate compliance with laws and regulations.

DISA's core financial management systems routinely provide reliable and timely information for managing day-to-day operations as well as providing information used to prepare financial statements and maintain effective internal controls; however, there were control deficiencies as result from the FY 2018 Independent Public Accountant (IPA) report. All of these factors are key indicators of FFMIA compliance.

Additionally, DISA provides application hosting services for the Department's service providers DFAS; Defense Logistics Agency; Defense Contract Management Agency; Defense Human

Resource Activity; Military Services; and Other Defense Organizations. As a result, DISA is responsible for most of the IT general controls over the computing environment in which many financial, personnel, and logistics applications reside. In order for service providers and components to rely on automated controls and documentation within these applications, controls must be appropriately and effectively designed. In FY 2019, DISA embarked on two Statement on Standards for Attestation Engagement (SSAE) 18 audits and received an unmodified opinion on Automated Time and Attendance and Production System (ATAAPS) (third consecutive year) and a modified on Hosting Services. The material weaknesses associated with the modified opinion were related to Logical Access, Network Access, and Change Management. DISA has been aggressively working the correction action plans for the 27 findings and as of 3 October 2019, 20 of 27 are closed.

Internal Controls over Financial Reporting – DISA also conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. Based on the results of

the assessment, DISA can provide reasonable assurance, except for the MWs noted above, that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of 30 September 2019.

The OCFO documented end-to-end business processes and identified key internal control activities supporting key business processes for ICOFR. DISA conducted an internal risk assessment that evaluated the results of prior year audits, internal analysis of the results of financial operations, and known upcoming business events. An internal control assessment was conducted within DISA for mission specific key processes.

Based on the results of the internal risk analysis, internal testing was conducted to evaluate the significance of potential deficiencies identified. Specific areas of testing included the following:

- Year End Obligations (GF)
- Revenue/Collections (GF and WCF)
- Expense/Disbursements (GF and WCF)
- Undelivered Orders (UDOs) (GF)
- Year-End Roll Forward (GF and WCF)
- PP&E Non-DISA Sites (GF)
- Departed and Active User Access Controls for Defense Cash Accountability System (DCAS); Defense Civilian Personnel Data System (DCPDS); Defense Civilian Pay System (DCPS); Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS); DDRS-Budgetary (DDRS-B); DPAS; Defense Travel System; and Invoicing, Receipt, Acceptance, and Property Transfer (iRAPT).

The details of these internal control reviews and the supporting documentation are kept on file for reference. No material weaknesses were found.

DISA underwent a full financial statement audit in FY 2018 and received a Disclaimer of Opinion on both WCF and GF. The basis for the disclaimer is specific to nine FBwT material weaknesses. The Independent Public Accountant (IPA) was not able to obtain reasonable assurance that material amounts of DISA transactions were not excluded from the financial statements in three areas; Suspense, Statement of Differences, and the Cash Management Report. There are multiple MWs due to separate findings for both WCF and GF as well as separate findings for beginning balances and ending balances. Our Service Provider, DFAS, has been aggressively working with our accountants to resolve these material weaknesses. Also, there were four financial reporting findings due to the validity of the aged balances not being assessed in a timely manner for WCF Accounts Payables, GF Accounts Receivable, GF Unfilled Customer Orders, and GF Aged Undelivered Orders. DISA processed the recommended auditor adjustments (reflected in the FY 2018 financial statements) and continues to perform additional analysis of dormant documents through the quarterly review process. The financial reporting findings were not the basis for the Disclaimer of Opinion.

In 2019, Financial Improvement and Audit Readiness (FIAR) led Department-wide discussions regarding SSAE 18s and the impact to component financial statements. DISA identified 275 Complementary User Entity Controls (CUECs) that had impact to our financial statements. In addition to our continued participation in Service Provider CUEC discussions, DISA analyzed the 275 identified CUECs and determined our level of risk, and identified control descriptions and control attributes for each. For those CUECs determined to be common across all the identified systems, testing was conducted for areas of high risk.

Conclusion on Overall Assessment of Internal Control:

Internal Control Evaluation	**Designed & Implemented (Yes/No)**	**Operating Effectively (Yes/No)**
Control Environment	Yes	Yes
Risk Assessment	Yes	Yes
Control Activities	Yes	Yes
Information and Communication	Yes	Yes
Monitoring	Yes	Yes
Are all components above operating together in an integrated manner?	Yes	Yes

Overall Evaluation of a System of Internal Control:

Overall Evaluation	**Operating Effectively (Yes/No)**
Is the overall system of internal control effective?	Yes.

DEFENSE INFORMATION SYSTEMS AGENCY
PO BOX549
FORT MEADE, MARYLAND 20755,0549

OCT O 9 2019

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2019

As Director of the Defense lnfonnation Systems Agency (DISA), I recognize DISA is responsible for managing risks and maintaining effective internal control to meet the objectives of sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. DISA conducted its assessment of risk and internal control in accordance with the 0MB 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." DISA's assessment identified 16 material weaknesses (MWs) which roll into three primary focus areas: Fund Balance with Treasury (9 MWs), aged transactions (4 MWs), and Hosting Services (3 MWs). DISA can provide reasonable assurance "except for" the MWs noted, that internal controls over operations, reporting, and compliance are operating effectively as of30 September 2019.

DISA conducted its assessment of the effectiveness of internal controls over operations in accordance with 0MB Circular No. A-123, the GAO Green Book, and the FMFIA. The "Internal Control Evaluation (Appendix C)" section provides specific information on how DISA conducted this assessment. Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of 30 September 2019.

DISA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with 0MB Circular No. A-123, Appendix A. The "Internal Control Evaluation (Appendix C)" section provides specific information on how DISA conducted this assessment. Based on the results of the assessment, DISA can provide reasonable assurance, except for the MWs reported in the "Significant Deficiencies and Material Weaknesses Template" that internal controls over reporting (including internal and external reporting) as of 30 September 2019, and compliance are operating effectively as of 30 September 2019.

DISA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and 0MB Circular No. A-123, Appendix D. The "Internal Control Evaluation (Appendix C)" section provides specific infonnation on how DISA conducted this assessment. Based on the results of this assessment, DISA can provide reasonable assurance, except for the non-confonnances reported in the

DISA Memo, Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act {FMFIA) for Fiscal Year 2019

"Significant Deficiencies and Material Weaknesses Template" that the internal controls over the financial systems are in compliance with the FMFlA, Section 4; FFMIA, Section 803; and 0MB Circular No. A-123, Appendix D, as of 30 September 2019.

DISA has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, 0MB Circular No. A-123, the Fraud Reduction and Data Analytics Act (FRDAA) of 2015, and GAO Fraud Risk Management Framework. Based on the results of the assessment, DISA can provide reasonable assurance that entity-level controls including fraud controls are operating effectively as of 30 September 2019.

My point of contact is Ms. Barbara Crawford at barbara.c.crawford.civ@mail.mil, or (614) 692-0688, if there are any questions regarding this Statement of Assurance for Fiscal Year 2019.

Nancy A. Norton

NANCY A. NORTON
Vice Admiral, USN
Director

Attachment:
As stated

In addition to FMFIA, DISA reports its compliance with the FFMIA. FFMIA requires an assessment of adherence to financial management system requirements, accounting standards, and U.S. Standard General Ledger transaction level reporting. For FY 2019, DISA is reporting overall substantial compliance. The following is a comprehensive list of laws and regulations which were assessed for compliance by the DISA WCF in context of the FY 2019 audit.

Acronym	Laws & Regulations (Supplement Number)
ADA	Antideficiency Act, 31 U.S.C. 1341 and 1517, and OMB A-11, Preparation, Submission, and Execution of the Budget, Part 4 FAM 803
DCIA	Provisions Governing Claims of the U.S. Government as provided primarily in 31 U.S.C. 3711-3720E (Including the Debt Collection Improvement Act of 1996) (DCIA) FAM 809
PPA	Prompt Payment Act, 5 CFR 1315. FAM 810
CSRA	Civil Service Retirement Act FAM 813
FEHB	Federal Employees Health Benefits Act FAM 814
FECA	Federal Employees' Compensation Act FAM 816
FERS	Federal Employees' Retirement System Act of 1986 FAM 817
PAS for CEs	Pay and Allowance System for Civilian Employees as Provided Primarily in Chapters 51-59 of Title 5, U.S. Code FAM 812
CFO Act, A-136	Chief Financial Officers (CFO) Act of 1990 and OMB Circular A-136, Financial Reporting Requirements
FFMIA	Federal Financial Management Improvement Act (FFMIA) of 1996; OMB Circular A-130, Managing Federal Information as a Strategic Resource
FMFIA and A-123	Federal Managers Financial Integrity Act (FMFIA) of 1982 and OMB Circular A-123, Appendices A through D
FISMA	Federal Information Security Management Act (FISMA) of 2002
DoD FMR	DoD, Financial Management Regulation 7000.14-R
IPERA	Improper Payments Elimination and Recovery Act of 2010 (IPERA) and M-18-20/OMB Circular A-123, Appendix C, October 1, 2018.

Financial Management Systems Framework, Goals, and Strategies

DISA's financial related system implementations have been planned and designed within the framework of the Business Enterprise Architecture (BEA) established within the DoD, which facilitates to the extent possible a more standardized framework for systems in the Department. Financial system related initiatives target implementation of a standardized financial information structure that will be compliant with FFMIA and BEA requirements, and provide DISA with cost accounting data and timely accounting information that enables enhanced decision-making.

FY 2019 represented a pivotal year in DISA's financial management systems evolution. In this period, DISA deployed two new accounting systems: the Defense Agencies Initiative (DAI), which replaced the legacy WAAS system for General Fund operations, and the FAMIS - Working Capital Fund (WCF) system, which modernized and expanded the previous FAMIS - Computing Services (CS) system to incorporate the full breadth of DISA's WCF lines of business (by adding functionality for Telecommunications Services and Enterprise Acquisition (IT contracting) Services). In addition to the two new accounting systems, DISA's financial systems environment is complemented by a select group of integrated financial tools and capabilities. These include:

- The functionality to provide customer and internal users with the ability to view details behind their telecommunication and contract IT invoices.
- An WCF information/execution management tool that provides users with the ability to view financial and non-financial (workload) data/consumption at a detailed level and provides a standardized method for cost allocations, budget preparation, rate development, and execution tracking with on-demand reports, ad-hoc queries, and table proof listings for analysis and decision making.
- A web-based application that enables DISA's budget development, budget submission, and budget execution activities for Appropriated Funds used in deciding issues regarding allocation of resources and evaluation of budget performance.
- A web-based WCF budgeting system and financial dashboard that allows program financial managers to formulate budgets, project future estimates, prepare required budget exhibits, and monitor budget execution.
- A financial dashboard on a web-based business intelligence platform that enables users across the enterprise to access financial information for both GF and DWCF funds through static reports, interactive data cubes, and customizable dashboards.

These capabilities combined with key interfaces to acquisition, contracting, and ordering systems, underpin DISA's automated framework of financial budgeting, execution, accounting, control, and reporting. Moving forward, DISA continues to solution improvements to its suite of financial tools by leveraging new technologies, evaluating opportunities to eliminate functional duplication where it exists, and reducing the footprint (and associated costs) of business systems writ large.

In that regard, DISA's Strategic Plan contains an objective to 'Reform the Agency.' Specifically, the plan addresses the agency's financial systems strategy and dictates that DISA increase its use of technologies such as Robotic Process Automation (RPA) and implement new technologies, such as artificial intelligence to ‘improve and automate financial and contractual transactions.’

DISA’s future financial modernization efforts include analyses of select DISA financial systems with the goal of consolidating associated functions and capabilities, consistent with DISA’s published strategic objectives. Though not a complete listing, these efforts include leveraging the use of a centralized data warehouse for ingesting required financial data in a single location, deployment of a modernized, web-based Business Intelligence (BI) application on DISA’s chosen customer-facing point of entry, consolidation of internal financial management functions to a single platform, and deployment of a Software as a Service (SaaS) application to address the various workflows and document repositories associated with existing systems.

These advancements, as well as future accounting system improvements (e.g., implementing the ‘One-fund’ concept, incorporating functionality to support Treasury’s G-Invoicing requirements, and supporting continued evolution of the BEA framework) will result in increased automation, transparency, access, and control of financial information in support of financial managers, mission partners, and higher echelon leaders.

Forward Looking

The DoD Joint Information Environment (JIE) is designed to create an enterprise information environment that optimizes use of the DoD IT assets, converging communications, computing, and enterprise services into a single joint platform that can be leveraged for all Department missions. These efforts improve mission effectiveness, reduce total cost of ownership, reduce the attack surface of our networks, and enable DISA’s mission partners to more efficiently access the information resources of the enterprise to perform their missions from any authorized IT device anywhere in the world. DISA continues its efforts towards realization of an integrated Department-wide implementation of the JIE through development, integration, and synchronization of JIE technical plans, programs and capabilities.

The DISA is uniquely positioned to provide the kind of streamlined, rationalized enterprise solutions the Department is looking for to effect IT transformation. The DISA owns/operates enterprise and cloud-capable DISA Data Centers, the world-wide DISN, and the DITCO. The DISA Data Centers routinely see workload increases – this trend will increase as major new initiatives begin to fully impact the Department. As part of the Department’s transition to the JIE, DISA Data Centers have been identified as Continental United States (CONUS) Core Data Centers (CDCs).

The DISA also anticipates continuation of partnerships with other federal agencies. The DoD/VA Integrated Electronic Health Record (iEHR) agreement to host all medical records in the DISA Data Centers and the requirement for DoD to provide Public Key Infrastructure (PKI) services to other federal agencies on a reimbursable basis are examples. We continue to move forward on several new initiatives, including:

- accelerated implementation of MPLS;

- deploying and sustaining Joint Regional Security Stacks (JRSS) to fundamentally change the way the DoD secures and protects its information networks;
  operating a Joint Enterprise License Agreement (JELA) line of business with a low fee of 0.25 percent;
- a new management concept in Computing Services that aligns like-functions across a single computing enterprise to prioritize excellence in service delivery, process efficiency, and standardization;
- the establishment of an on-premise cloud hosting capability to enable the Department's migration to cloud computing,
- a reduced data footprint,
- streamlined cybersecurity infrastructure;
- the convergence of DoD networks, service desks, and operations centers into a consolidated, secure, and effective environment capable of addressing current and future mission objectives called Fourth Estate Network Optimization (4ENO).

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the DISA WCF and GF, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from books and records of the DISA WCF and GF in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a Defense Agency of the U.S. Government, a sovereign entity.

Defense Information Systems Agency
General Fund
Principal Financial Statements
4th Quarter Fiscal Year 2019, ending September 30, 2019

Department of Defense
Defense Information Systems Agency General Fund
As of September 30, 2019 and 2018
($ in Thousands)

Figure 7 - Balance Sheet

	2019	2018
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$2,960,711	$2,984,536
Accounts Receivable (Note 6)	69,666	15,678
Total Intragovernmental Assets	$3,030,377	$3,000,214
Accounts Receivable, Net (Note 6)	298	294
General Property, Plant and Equipment, Net (Note 9)	724,070	500,435
Other Assets (Note 10)	21	137
TOTAL ASSETS	$3,754,766	$3,501,080
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 9)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable	$ 199,629	$ 189,861
Other Liabilities (Note 15 & 17)	4,300	3,990
Total Intragovernmental Liabilities	$ 203,929	$ 193,851
Accounts Payable	$ 42,038	$ 10,157
Military Retirement and Other Federal Employment Benefits (Note 13)	5,703	5,777
Other Liabilities (Note 15 and Note 17)	62,439	53,997
TOTAL LIABILITIES	$ 314,109	$ 263,782
COMMITMENTS AND CONTINGENCIES (NOTE 17)		
NET POSITION		
Collections (Note 18)		
Unexpended Appropriations - Other Funds	2,710,920	2,699,274
Collections (Note 18)		
Cumulative Results of Operations - Other Funds	729,737	538,024
TOTAL NET POSITION	$3,440,657	$3,237,298
TOTAL LIABILITIES AND NET POSITION	$3,754,766	$3,501,080

Department of Defense
Defense Information Systems Agency General Fund
For the periods ended September 30, 2019 and 2018
($ in Thousands)

Figure 8 - Statement of Net Cost

	2019	2018
Program Costs		
Gross Costs	$ 3,428,826	$ 2,652,110
(Less: Earned Revenue)	(227,239)	(175,883)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	3,201,587	2,476,227
for Military Retirement Benefits		
Net Program Costs Including Assumption Changes	3,201,587	2,476,227
Net Cost of Operations	$ 3,201,587	$ 2,476,227

($ in Thousands)

Figure 9 - Statement of Changes in Net Position

	2019	2018
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	$ 2,699,274	$ 2,398,140
Prior Period Adjustments:		
Beginning balances, as adjusted	2,699,274	2,398,140
Budgetary Financing Sources:		
Appropriations received	3,217,389	2,969,197
Appropriations transferred-in/out	109,954	92,764
Other adjustments (+/-)	(74,973)	(62,267)
Appropriations used	(3,240,724)	(2,698,560)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	11,646	301,134
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	$ 2,710,920	$ 2,699,274
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	538,024	490,316
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	538,024	490,316
Budgetary Financing Sources:		
Other adjustments (+/-)	(13,799)	223
Appropriations used	3,240,724	2,698,560
Transfers-in/out without reimbursement	(216)	-
Other budgetary financing sources	(12)	(302)
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(62,322)	(226,195)
Imputed financing from costs absorbed by others	228,926	51,651
Other (+/-)	(1)	(2)
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	3,393,300	2,523,935
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	3,201,587	2,476,227
Net Change	191,713	47,708
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	729,737	538,024
Net Position	$ 3,440,657	$ 3,237,298

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2019 and 2018
($ in thousands)

Figure 10 - Statement of Budgetary Resources

	2019	2018
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 750,988	$ 688,441
Appropriations (discretionary and mandatory)	3,294,808	3,051,050
Spending Authority from offsetting collections (discretionary and mandatory)	218,667	240,509
Total Budgetary Resources	$ 4,264,463	$ 3,980,000
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 3,741,054	$ 3,502,238
Unobligated balance, end of year:		
Apportioned, unexpired accounts	417,213	360,268
Unexpired unobligated balance, end of year	417,213	360,268
Expired unobligated balance, end of year	106,196	117,494
Unobligated balance, end of year (total)	523,409	477,762
Total Budgetary Resources	$ 4,264,463	$ 3,980,000
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	3,262,180	2,679,235
Agency Outlays, net (discretionary and mandatory)	$ 3,262,180	$ 2,679,235

Defense Information Systems Agency
General Fund
Notes to the Principal Statements
4th Quarter Fiscal Year 2019, ending September 30, 2019

Note 1. Summary of Significant Accounting Policies

1.A. Reporting Entity. The accompanying financial statements include the results of operations of the Defense Information Systems Agency (DISA), a Combat Support Agency within the Department of Defense. DISA provides, operates, and assures command and control, information-sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to joint warfighters, national level leaders, and other mission and coalition partners across the full spectrum of operations, provided from cost-effective infrastructure and computing.

The history of DISA is traceable to the Defense Reorganization Act of 1958, which authorized the creation of a joint military communications network to be formed by consolidation of the communications facilities of the Military Departments. This would ultimately lead to the formation of the Defense Communications Agency (DCA). Over the next several years, DCA expanded its mission and underwent a number of mergers with other agencies to enhance the interoperability of command, control, and communications (C3). On June 25, 1991, DCA was renamed DISA to reflect its expanded role in implementing the Department of Defense's (DoD) information initiatives, and to clearly identify DISA as a combat support agency. Currently, DISA is the premier Information Technology Combat Support Agency that provides and assures command, control, communications, computing, intelligence, surveillance, and reconnaissance (C4ISR) to the warfighter, and delivers enterprise services and data at the user point of need. In addition, with the standup of the new Joint Force Headquarters-DoD Information Network (JFHQ-DoDIN) organization on January 15, 2015, DISA now serves as the joint operational arm of defense cyberspace operations for the DoD. The JFHQ-DoDIN exercises command and control of DoDIN operations and defensive cyber operations-internal defense measures globally in order to synchronize the protection of DoD component capabilities and to enable power projection and freedom of action across all warfighting domains. The DISA operates under the direction, authority, and control of the DoD Chief Information Officer (CIO) who reports directly to the Secretary of Defense.

The DISA receives funding through both congressional appropriations, referred to as the DISA General Fund (GF), and by operating the information services activity within the Defense-Wide Working Capital Fund (DWCF). The DISA WCF is a separately reported fund and not included herein. The DISA GF receives appropriations and funds through the established Office of Management and Budget (OMB) and DoD fund distribution process. The DISA GF uses these appropriations and funds to execute missions that are not funded by WCF, and it subsequently reports on resource usage supported by financial transactions for civilian personnel, operation and maintenance, research and development, procurement, and military construction.

The DISA GF is a party to allocation transfers with other federal agencies as 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. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, and outlays) are reported in the financial statements of the transferring (parent) entity.

1.B. Mission of Reporting Entity. DISA's mission is to conduct Department of Defense Information Network (DODIN) operations for the joint warfighter to enable lethality across all warfighting domains in defense of our Nation.

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

The DISA GF is not yet fully compliant with all elements of U.S. GAAP and the OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The DISA GF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with U.S. GAAP. The DISA GF continues to implement process and system improvements addressing these limitations.

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

1.D. Basis of Accounting. The DISA GF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DISA GF sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The DISA GF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis which is the summation of the Components less the Eliminations. The Statement of Budgetary Resources is presented on a combined basis which is the summation of the Components. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use of Federal funds.

DISA's continued effort towards full compliancy with U.S. GAAP is encumbered by various systems limitations and the sensitive nature of Departmental activities.
The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

1.E. Accounting for DISA Intra-Entity, Intragovernmental, and Intergovernmental Activities. The Treasury Financial Manual Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. The DoD is implementing replacement systems and a standard financial information structure that will incorporating the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances**.**

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

The preparation of financial statements in accordance with GAAP requires special treatment of revenues earned and costs incurred within DISA GF's reporting entity. These "intra-entity" transactions between appropriation types (programs) within DISA GF are recorded and then eliminated as part of the financial statement consolidation and preparation process. Prior to consolidation, appropriation type balances are reconciled to each other, with any resulting adjustments made to pertinent balances to complete the elimination process.

The DISA GF engages in a manual reconciliation process with trading partners where transaction detail is identified and any material differences are resolved. The DISA GF also reconciles its buyer-side data with several tier-one federal agencies, including balances pertaining to Federal Employees' Compensation Act (FECA) transactions with the Department of Labor (DOL) and benefit program transactions with the Office of Personnel Management (OPM). In general, DISA GF does more buying than selling with other intragovernmental agencies. The largest trading partner on the buyer side and seller side is DISA WCF. Other major federal agency trading partners for the buyer side include the Department of the Navy WCF, the Department of the Navy GF, the Department of the Army GF, and the Defense Technical Information Center (DTIC). On the seller side, the DISA GF engages in sales and receivables activities with DISA WCF, the Department of Army GF, The Department of the Air Force GF, and the Department of the Navy GF. There are other intragovernmental trading partners on both sides, with smaller transactional volume with DISA.

1.F. Non-Entity Assets. Non-entity assets are assets for which the DISA GF maintains stewardship accountability and reporting responsibility but are not available for DISA GF normal operations. The DISA GF nonentity assets are comprised of immaterial amounts of accumulated interest receivable, and accumulated penalties and administrative fees receivable.

For additional information, see Note 2 *Non-Entity Assets.*

1.G. Funds Balance with the Department of the Treasury. The DISA GF's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of 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 process the majority of the DISA GF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBwT) account.

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

1.H. Cash and Other Monetary Assets. The DISA GF does not maintain or report cash resources (coin, paper currency, negotiable instruments, or amounts held for deposit in banks or other financial institutions).

1.I. Investments in U.S. Treasury Securities. The DISA GF does not invest in or report investments in U.S. Treasury Securities.

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

1.K. Direct Loans and Loan Guarantees. The DISA GF neither provides, holds, nor reports any direct loans or loan guarantees.

1.L. Inventories and Related Property. The DISA GF does not maintain or report any inventories or related property.

1.M. General Property, Plant and Equipment. The DISA GF capitalizes all Property, Plant and Equipment (PP&E) used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other category.

The DISA GF General Property, Plant and Equipment (PP&E) consists of telecommunications equipment, computer equipment, computer software, assets under capital lease, construction in progress and leasehold improvements whereby the acquisition cost falls within prescribed thresholds and the estimated useful life is 2 or more years. The DISA GF PP&E capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $20 thousand for real property) and are carried at the remaining net book value. PP&E with an acquisition cost of less than the capitalization threshold is expensed when purchased. Property and equipment meeting the capitalization threshold is depreciated using the straight-line method over the initial or remaining useful life as appropriate, that range from 3 to 25 years.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. The DoD capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis. The DISA GF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. Leasehold improvements are amortized over the lesser of their useful life, generally five years, or the unexpired lease term.

A subset of DISA GF assets do not lend themselves to a single activation date. Statement of Federal Financial Accounting Standard 6 directs that depreciation is calculated through a systematic and rational allocation of cost, and that a composite methodology for a heterogeneous set of assets may be permissible. DISA applies a mid-year type approach to commencing depreciation expense for these assets because it provides the most systematic and rational approach to applying an asset activation date, one that addresses the standards and achieves the objectives of matching expense to the period in which the benefit is derived. The date chosen is not the actual mid-year point of the fiscal year, but rather June 30 of each year because the third and fourth quarters of the fiscal year consistently represent the periods of highest activity for receipt of equipment. The DISA GF has recently developed the capability for determining a more precise asset activation date using the month available for service method for a subset of assets allowing for the associated depreciation expense to better match the period in which the benefit is derived as required by accounting standards. The resulting adjustment for change in estimate was done prospectively in accordance with standards. Additional details for this change in estimate for depreciation is provided in Note 9 – General PP&E.

1.N. Other Assets, Advances, and Prepayments. The DISA GF's other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on DISA GF's Balance Sheet. The DISA GF's other assets primarily consists of advances and prepayments. However, other assets may include military and civil service employee pay advances, and travel advances that are not reported elsewhere on DISA GF's balance sheet.

When permitted by law, legislative action, or presidential authorization, the DISA GF records advances or prepayments in accordance with federal GAAP. Accordingly, payments made in advance of the receipt of goods and services are reported as an asset on the balance sheet.

1.O. Leases. Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, DISA GF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The DISA GF records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The DISA GF, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds.

An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable. Office space and leases entered into by DISA GF are the largest component of operating leases and are based on costs gathered from existing leases.

1.P. Liabilities. The DISA GF liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the Department absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example future environmental cleanup liability, represent amounts owed in excess of available appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11, *Liabilities Not Covered by Budgetary Resources*.

1.Q. Environmental and Disposal Liabilities. The DISA GF has not incurred any environmental and disposal liabilities.

1.R. Other Liabilities. The DISA GF other liabilities include:

Accrued payroll consists of salaries, wages, and other compensation earned by employees but not disbursed as of September 30. The liability is estimated for reporting purposes based on historical pay information.

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) (Pub. L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to 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.

Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to DoD Civilian employees. The programs are available to Civilian employees but employees do not have to participate. These programs include life and health 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. OPM, as the administrating agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. The DoD has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

For additional information, see Note 15 *Other Liabilities*.

1.S. Commitments and Contingencies. The SFFAS No. 5, *"Accounting for Liabilities of the Federal Government"*, as amended by SFFAS No. 12, *"Recognition of Contingent Liabilities Arising from Litigation"*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur to fail to occur. The DISA

GF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss. The DISA GF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due primarily to contract disputes.

The DISA GF recognizes contingent liabilities on the Consolidated Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated 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.

DoD executes project agreements pursuant to the framework cooperative agreement with foreign governments. All of these agreements give rise to obligations that are fully reported in the DoD financial statements, pursuant to legal authority, appropriated funds, and none are contingent. DoD does not enter into treaties and other international agreements that create contingent liabilities.

DoD does not have Environmental Contingencies. The legal environmental cases are recorded as legal contingencies.

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

1.T. Military Retirement and Other Federal Employment Benefits. The DISA GF does not administer pensions, Other Reportable Benefits (ORB), or Other Post-Employment Benefits (OPEB) and does not report gains or losses on Retirement Benefits.

The DISA GF recognizes the annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with pension costs are recognized by OPM rather than the DoD. Accordingly, DISA does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

Most DoD employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS). The majority of DoD employees hired December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. A primary feature of FERS is that it also offers a defined contribution plan (Federal Thrift Savings Plan) to which the DoD automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes 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 Program and Federal Employees

Group Life Insurance Program. The Department 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, the Department 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 the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

For additional details, see Note 13, *Military Retirement and Other Federal Employee Benefits*.

1.U. Revenues and Other Financing Sources. DISA receives congressional appropriations and funding as general and working capital (revolving), and uses these appropriations and funds to execute its missions and subsequently report on resource usage.

The DISA general funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DoD appropriations funding covers costs including personnel, operations and maintenance, research and development, procurement, and military construction.

The DISA GF receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for WCFs. These funds either expire annually, some on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The DISA GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is DISA GF's standard policy for services provided as required by OMB Circular A-25, "User Charges". In some instances, revenue is recognized when bills are issued.

The DISA GF net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Recognition of Expenses. For financial reporting purposes, the DISA GF policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses and accounts payable.

1.W. Treaties for Use of Foreign Bases. The DISA GF is not a party to Treaties for Use of Foreign Bases.

1.X. Use of Estimates. The DISA GF management makes assumptions and reasonable estimates in the preparations 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, year-end accruals of accounts payable, and actuarial liabilities related to workers' compensation.

1.Y. Parent-Child Reporting. The DISA GF is party to allocation transfers with other federal entities as a receiving (child) entity.

1.Z. Transactions with Foreign Governments and International Organizations. The DISA GF does not have transactions with Foreign Governments and International Organizations.

1.AA. Fiduciary Activities. The DISA GF does not have fiduciary activities.

1.BB. Tax Exempt Status. As an agency of the federal government, DoD entities are exempt from all income taxes imposed by any governing body whether it is federal, state, commonwealth, local, or foreign government.

1.CC. Subsequent Events. Subsequent events have been evaluated from the balance sheet through October 20, 2019, which is the date the financial statements were available to be issued.

1.DD. Standardized Notes to the Financial Statements. Beginning in FY2019, DoD Agency-wide and Components have the same Note structure in the notes to the financial statements included in their respective annual financial statements. If a Note is not applicable to a Component, the Component will include the note number and name, and short statement indicating that is not applicable. This is in an effort to provide consistency throughout the Department and Components Stand Alone annual financial statements.

Note 2. Non-Entity Assets

Non-entity assets are not available for the use in the DISA GF's normal operations. The DISA GF has stewardship accountability and reporting responsibility for non-entity assets.

Non-Federal Assets:

Accounts Receivable: consists of amounts associated with canceled year appropriations, and interest, fines and penalties due on debt. Generally, DISA GF cannot use the proceeds and must remit them to the U.S. Treasury unless permitted by law.

Figure 11 - Non-Entity Assets

(thousands)

	2019	2018
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ -	$ -
B. Accounts Receivable	-	-
C. Other Assets	-	-
D. Total Intragovernmental Assets	$ -	$ -
2. Non-Federal Assets		
A. Cash and Other Monetary Assets	$ -	$ -
B. Accounts Receivable	-	7
C. Other Assets	-	-
D. Total Non-Federal Assets	$ -	$ 7
3. Total Non-Entity Assets	$ -	$ 7
4. Total Entity Assets	$ 3,754,766	$ 3,501,073
5. Total Assets	$ 3,754,766	$ 3,501,080

Note 3. Fund Balance with Treasury

The U.S. Treasury maintains and reports fund balances at the Treasury Index (TI) appropriation level. The DISA GF is included at the TI 97 appropriation level, an aggregate level that does not provide identification of the separate defense agencies. As a result, the U.S. Treasury does not separately report an amount for DISA GF. Therefore, the entire DISA GF FBWT amount is reflected as a reconciling amount.

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

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use.

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

Non-FBWT Budgetary Accounts reduces the Status of FBWT. The DISA GF Non-FBWT Budgetary Accounts is comprised of unfilled orders without advance from customers and receivables.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities. The DISA GF received allocation transfers from other federal agencies for execution on their behalf in the amount of $1.1 million in FY 2019 and $1.8 million in FY 2018.

The FBWT reported in the financial statements has been adjusted to reflect the DISA GF balance as reported by Treasury. The difference between FBWT in the DISA GF general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DISA GF general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DISA GF general ledger accounts.

Figure 12 - Status of Fund Balance with Treasury

(thousands)

	2019	2018
1. Unobligated Balance:		
A. Available	$ 417,212	$ 360,268
B. Unavailable	106,196	117,494
Total Unobligated Balance	$ 523,408	$ 477,762
2. Obligated Balance not yet Disbursed	$ 2,641,121	$ 2,684,299
3. Non-Budgetary FBWT:		
A. Clearing accounts	$ -	$ -
B. Deposit funds	-	-
C. Non-entity and other	-	-
Total Non-Budgetary FBWT	$ -	$ -
4. Non-FBWT Budgetary Accounts:		
A. Investments - Treasury Securities	$ -	$ -
B. Unfilled Customer Orders without Advance	(131,567)	(156,691)
C. Contract Authority	-	-
D. Borrowing Authority	-	-
E. Receivables and Other	(72,251)	(20,834)
Total Non-FBWT Budgetary Accounts	$ (203,818)	$ (177,525)
5. Total FBWT	$ 2,960,711	$ 2,984,536

Note 6. Accounts Receivable, Net

Accounts receivable represent DISA GF's claim for payment from other entities. The DISA GF only recognizes an allowance for uncollectible amounts from the public. The allowance for uncollectible accounts of non-federal receivables is determined by using a systematic methodology that includes performing an analysis of the applicable accounts receivable historical data. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700.

Figure 13 - Accounts Receivable, Net

(thousands)

2019	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 69,666	N/A	$ 69,666
2. Non-Federal Receivables (From the Public)	$ 298	$ -	$ 298
3. Total Accounts Receivable	$ 69,964	$ -	$ 69,964

2018	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 15,678	N/A	$ 15,678
2. Non-Federal Receivables (From the Public)	$ 294	$ -	$ 294
3. Total Accounts Receivable	$ 15,972	$ -	$ 15,972

Note 9. General PP&E, Net

The DISA GF General PP&E comprises leasehold improvements, equipment, and software with a net book value (NBV) of $724.1 million.

There are no restrictions on the use or convertibility of DISA GF's property and equipment, and all values are based on acquisition cost.

As disclosed in Note 1.P., the result of identifying more precise information and in-service dates for items now maintained within DPAS, adjustments were made to General Equipment, Software, and Assets Under Capital Lease previously transferred into the WCF from the DISA GF. These adjustments impacted the acquisition value and accumulated depreciation of the FY 2019 beginning balances by the following amounts (dollars in thousands):

Asset Class	Acquisition Value	Accumulated Depreciation
CIP……………………………	$ 192,883	$ -
Equipment……………………	(19,551)	29,086
Software…………………....	1,917	(1,291)
Leasehold Improvements…..	5,162	(2,176)
Building………………………	-	(51)
Total Adjustment…………..	$ 180,412	$ 25,568

The DISA GF does not possess any Stewardship PP&E (Federal Mission PP&E, Heritage Assets, or Stewardship Land). The implementation of Statement of Federal Financial Accounting Standard (SFFAS) No. 6 did not result in any changes in asset values and was accomplished through the application of guidance contained in DoD FMR Volume 4, Chapter 6, paragraphs 0601 and 0602.

Figure 14 - Major General PP&E Classes

2019	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulation Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ -	N/A	$ -
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45*	458,368	(97,446)	360,922
C. Leasehold Improvements	S/L	Lease term	68,760	(36,829)	31,931
D. Software	S/L	2-5 or 10	12,146	(10,948)	1,198
E. General Equipment	S/L	Various	390,390	(292,204)	98,186
F. Assets Under Capital Lease	S/L	Lease term	-	-	-
G. Construction-in-Progress	N/A	N/A	231,833	N/A	231,833
H. Other	N/A	N/A	-	-	-
I Total General PP&E			$ 1,161,497	$ (437,427)	$ 724,070

2018	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulation Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ -	N/A	$ -
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45*	458,368	(85,945)	372,423
C. Leasehold Improvements	S/L	Lease term	52,941	(28,195)	24,746
D. Software	S/L	2-5 or 10	9,339	(8,518)	821
E. General Equipment	S/L	Various	378,155	(296,637)	81,518
F. Assets Under Capital Lease	S/L	Lease term	-	-	-
G. Construction-in-Progress	N/A	N/A	20,927	N/A	20,927
H. Other	N/A	N/A	-	-	-
I Total General PP&E			$ 919,730	$ (419,295)	$ 500,435

Note 10. Other Assets

The DISA GF's other assets consists of minimal amounts for advances and prepayments, and outstanding contract financing payments.

In FY 2019, DISA GF has no Outstanding Contract Financing Payments, a separate classification of advances and prepayments. In comparison, FY 2018 Outstanding Contract Financing Payments included $124 thousand in outstanding contract financing payments. This additional Contract Financing Payment asset is related to the FY 2018 Contingent Liabilities reported in Note 15, *Other Liabilities*.

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.

Figure 15 - Other Assets

(thousands)

	2019	2018
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ -	$ -
B. Other Assets	-	-
C. Total Intragovernmental Other Assets	$ -	$ -
2. Non-Federal Other Assets		
A. Outstanding Contract Financing Payments	$ -	$ 124
B. Advances and Prepayments	21	13
C. Other Assets (With the Public)	-	-
D. Total Non-Federal Other Assets	$ 21	$ 137
3. Total Other Assets	$ 21	$ 137

Note 11. Liabilities Not Covered by Budgetary Resources

Total Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is required before budgetary resources can be provided.

Intragovernmental Liabilities "Other" consists of $1.3 million of unfunded FECA liabilities related to bills from the DOL that are not funded until the billings are received.

Non-Federal Liabilities "Military Retirement and Other Federal Employment Benefits" consists of $5.7 million in various employee actuarial FECA liabilities not due and payable during the current fiscal year. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details. Non-Federal "Other Liabilities" is an unfunded annual leave liability for $34.4million. This balance reflects earned amounts of annual leave to be paid from future appropriations.

Figure 16 - Liabilities Not Covered by Budgetary Resources

(thousands)

	2019		2018	
1. Intragovernmental Liabilities				
A. Accounts Payable	$	-	$	-
B. Debt		-		-
C. Other		1,320		1,344
D. Total Intragovernmental Liabilities	$	1,320	$	1,344
2. Non-Federal Liabilities				
A. Accounts Payable	$	-	$	-
B. Military Retirement and Other Federal Employment Benefits		5,705		5,777
D. Environmental and Disposal Liabilities		-		-
C. Other Liabilities		34,358		33,174
D. Total Non-Federal Liabilities	$	40,063	$	38,951
3. Total Liabilities Not Covered by Budgetary Resources	$	41,383	$	40,295
4. Total Liabilities Covered by Budgetary Resources	$	272,726	$	223,487
5. Total Liabilities Not Requiring Budgetary Resources	$	-	$	-
6. Total Liabilities	$	314,109	$	263,782

Note 13. Military Retirement and Other Federal Employment Benefits

Actuarial Cost Method Used and Assumptions:

The Department of Labor (DOL) estimates actuarial liability only at the end of each fiscal year. The DOL selected the COLA factors, CPIM factors, and interest rates for the current and prior four years for FY 2019 and FY 2018, respectively, using averaging renders estimates that reflect historical trends over five years. DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield

Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2019 and FY 2018, respectively. Interest rate assumptions utilized for FY 2019 discounting were as follows:

Discount Rates

For wage benefits:
2.610% in Year 1 and years thereafter;
For medical benefits:
2.350% in Year 1 and years thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2019 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2019	N/A	N/A
2020	1.47%	2.86%
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024 and thereafter	2.21%	3.88%

To test the reliability of the model, comparisons were made between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. The model has been stable, and has projected the actual payments by agency well.

Expense Components

For FY 2019, the only expense component pertaining to other actuarial benefits for DISA GF is the FECA expense. The DOL provides the expense data to DISA. The staffing ratio data from DISA Headquarters determines the allocation of the expense to DISA GF and DISA WCF.

The DOL provided an estimate for DISA's future workers' compensation benefits of $10.5 million. The DISA distributed $5.7 million to DISA GF and $4.8 million to DISA WCF based upon staffing ratios. The DISA made the distribution using DISA's normal methodology of apportioning FECA liability to GF and WCF based upon relative staffing levels. The DISA used the same apportionment methodology in FY 2018 and prior years.

Changes in Actuarial Liability

Fluctuations in the total liability amount charged to DISA by DOL will cause changes in FECA liability. The Other Actuarial Benefits, FECA liability decreased $73.2 thousand due to a decrease in COLA and CPIM inflation factors that in turn increased the actuarial liability estimate provided by DOL (http://www.dol.gov/ocfo/publications.html).

Figure 17 - Military Retirement and Other Federal Employment Benefits

(thousands)

2019	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ -	$ -	$ -
B. Military Pre Medicare-Eligible Retiree Health Benefits	-	-	-
C. Military Medicare-Eligible Retiree Health Benefits	-	-	-
D. Total Pension and Health Benefits	$ -	$ -	$ -
2. Other Benefits			
A. FECA	$ 5,703	$ -	$ 5,703
B. Voluntary Separation Incentive Programs	-	-	-
C. DoD Education Benefits Fund	-	-	-
D. Other	-	-	-
E. Total Other Benefits	$ 5,703	$ -	$ 5,703
3. Total Military Retirement and Other Federal Employment Benefits	$ 5,703	$ -	$ 5,703

2018	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ -	$ -	$ -
B. Military Pre Medicare-Eligible Retiree Health Benefits	-	-	-
C. Military Medicare-Eligible Retiree Health Benefits	-	-	-
D. Total Pension and Health Benefits	$ -	$ -	$ -
2. Other Benefits			
A. FECA	$ 5,777	$ -	$ 5,777
B. Voluntary Separation Incentive Programs	-	-	-
C. DoD Education Benefits Fund	-	-	-
D. Other	-	-	-
E. Total Other Benefits	$ 5,777	$ -	$ 5,777
3. Total Military Retirement and Other Federal Employment Benefits	$ 5,777	$ -	$ 5,777

Note 15. Other Liabilities

Intragovernmental

FECA Reimbursement to DOL - $1.3 million: Federal Employee's Compensation Act FECA Reimbursement to the Department of Labor represents liabilities due under the Federal Employee Compensation Act. Billed amounts payable in Fiscal Years 2018 (if applicable) and 2019 and unbilled amounts for both incurred and estimated accrual amounts are included. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability. The FECA program provides benefits to employees injured on the job and their beneficiaries. The program is administered by DOL, which pays claim amounts and then seeks reimbursement from DISA GF. The amount owed by DISA GF for FECA liabilities has two components. The first component is the reimbursement due to the DOL for amounts actually paid on behalf of the DISA GF. The second component is an actuarial liability, which is an estimate of future payments by DOL. The actuarial liability is based on historical patterns, assessed level of risk, and medical and wage inflation factors. Both liabilities are unfunded until budgetary resources become available for reimbursement.

Employer Contributions and Payroll Taxes Payable – $3.0 million: The DISA GF pays portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments. The DISA GF employees are generally covered under the Civil Service Retirement System or Federal Employee Retirement System.

Non-Federal

Accrued Funded Payroll and Benefits - $15.3 million: The DISA GF reports as other liabilities, the unpaid portion of accrued funded civilian payroll and employee's annual leave as it is earned, and subsequently reduces the leave liability when it is used.

Advances from Others - $8.3 million: This liability represents the remaining amount of customer advance billings. These customer advances will be liquidated in future periods as the result of filling customer orders/earned revenue based on the completion of contract task orders and other direct costs being applied to the specific customer advance accounts under Major Range and Test Facility Base guidelines, polices, and regulation.

Accrued Unfunded Annual Leave - $34.4 million: Unused leave is an unfunded liability that will be paid from future resources when taken or when the employee retires or separates. The amount reported at the end of the period reflects current pay rates. Sick leave is not a vested benefit and is expensed when taken.

Employer Contribution and Payroll Taxes - $4.5 million: The non-federal Employer Contribution and Payroll Taxes is comprised of the DISA GF employer contributions to the Thrift Savings Plan (TSP).

Figure 18 - Other Liabilities

(thousands)

2019	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
A. Advances from Others	$ -	$ -	$ -
B. Deposit Funds and Suspense Account Liabilities	-	-	-
C. Disbursing Officer Cash	-	-	-
D. Judgment Fund Liabilities	-	-	-
E. FECA Reimbursement to the Department of Labor	557	763	1,320
F. Custodial Liabilities	-	-	-
G. Employer Contribution and Payroll Taxes Payable	2,980	-	2,980
H. Other Liabilities	-	-	-
I. Total Intragovernmental Other Liabilities	$ 3,537	$ 763	$ 4,300
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 15,337	$ -	$ 15,337
B. Advances from Others	8,264	-	8,264
C. Deferred Credits	-	-	-
D. Deposit Funds and Suspense Accounts	-	-	-
E. Temporary Early Retirement	-	-	-
F. Non-Environmental Disposal Liabilities	-	-	
(1) Military Equipment (Non-Nuclear)	-	-	-
(2) Excess/Obsolete Structures	-	-	-
(3) Conventional Munitions Disposal	-	-	-
G. Accrued Unfunded Annual Leave	34,358	-	34,358
H. Capital Lease Liability	-	-	-
I. Contract Holdbacks	-	-	-
J. Employer Contribution and Payroll Taxes Payable	4,480	-	4,480
K. Contingent Liabilities	-	-	-
L. Other Liabilities	-	-	-
M. Total Non-Federal Other Liabilities	$ 62,439	$ -	$ 62,439
3. Total Other Liabilities	$ 65,976	$ 763	$ 66,739

2018	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
A. Advances from Others	$ -	$ -	$ -
B. Deposit Funds and Suspense Account Liabilities	-	-	-
C. Disbursing Officer Cash	-	-	-
D. Judgment Fund Liabilities	45	-	45
E. FECA Reimbursement to the Department of Labor	568	732	1,300
F. Custodial Liabilities	7	-	7
G. Employer Contribution and Payroll Taxes Payable	2,638	-	2,638
H. Other Liabilities	-	-	-
I. Total Intragovernmental Other Liabilities	$ 3,258	$ 732	$ 3,990
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 10,636	$ -	$ 10,636
B. Advances from Others	5,803	-	5,803
C. Deferred Credits	-	-	-
D. Deposit Funds and Suspense Accounts	-	-	-
E. Temporary Early Retirement	-	-	-
F. Non-Environmental Disposal Liabilities	-	-	
(1) Military Equipment (Non-Nuclear)	-	-	-
(2) Excess/Obsolete Structures	-	-	-
(3) Conventional Munitions Disposal	-	-	-
G. Accrued Unfunded Annual Leave	33,174	-	33,174
H. Capital Lease Liability	-	-	-
I. Contract Holdbacks	-	-	-
J. Employer Contribution and Payroll Taxes Payable	4,259	-	4,259
K. Contingent Liabilities	-	125	125
L. Other Liabilities	-	-	-
M. Total Non-Federal Other Liabilities	$ 53,872	$ 125	$ 53,997
3. Total Other Liabilities	$ 57,130	$ 857	$ 57,987

Note 16. Leases

Future Payments Due for Leases

The DISA GF has non-cancelable operating leases for office equipment, vehicles, land, buildings and commercial space. Prior year tables for future minimum lease payments are not presented. Future lease payments due as of September 30, 2019, were as follows:

Figure 19 - Future Payments Due for Non-Cancelable Operating Leases

(thousands)

2019	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2020	41,741	1,468	2,269	45,478
2021	42,326	1,487	2,382	46,195
2022	43,403	1,508	2,501	47,412
2023	44,160	1,530	2,626	48,316
2024	44,983	887	2,997	48,867
After 5 Years	52,636	4,654	17,172	74,462
Total Federal Future Lease Payments	$ 269,249	$ 11,534	$ 29,947	$ 310,730
2. Non-Federal				
Fiscal Year				
2020	-	-	764	764
2021	-	-	802	802
2022	-	-	842	842
2023	-	-	884	884
2024	-	-	891	891
After 5 Years	-	-	5,500	5,500
Total Non-Federal Future Lease Payments	$ -	$ -	$ 9,683	$ 9,683
3. Total Future Lease Payments	$ 269,249	$ 11,534	$ 39,630	$ 320,413

Note 17. Commitments and Contingencies

The DISA GF is a party in various administrative proceedings and legal actions related to contractual based disputes. The DISA GF is not aware of any contingent liabilities for legal actions for FY 2019.

Note 19. General Disclosures Related to the Statement of Net Cost

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of DISA GF that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems capture costs based on appropriations groups as presented in the schedule below. The lower level costs for major programs are not presented as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SSFAS No. 55, "Amending Inter-Entity Cost Provisions."

Effective Fiscal Year 2018, the Department has elected early implementation of SFFAS No. 55 which rescinds SFFAS No. 30, "Inter-Entity Cost Implementation: Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4."

Intragovernmental costs and revenue are related to transactions between two reporting entities within the Federal Government. Public costs and revenue are exchange transactions made between DISA GF and a non-federal entity.

The DISA GF reports exchange revenues for inflows of earned resources. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Exchange revenues arise when DISA GF provides something of value to the public or another Government entity at a price. Pricing policy for exchange revenues are derived by recovering costs.

The DISA GF employs a trading partner reconciliation throughout the year to validate buyer-side and seller-side balances, and collaborates with its major DoD partners to identify and resolve material differences. Generally, in accordance with DoD FMR Volume 6B, Chapter 13, paragraph 13201, the internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue. For variances that remain unreconciled at the end of the period, DISA GF expenses are adjusted by reclassifying amounts between federal and non-federal expenses or by accruing additional accounts payable and expenses.

Figure 20 – Cost and Exchange Revenue by Major Programs

(thousands)

	2019		2018	
Military Retirement Benefits				
1. Gross Cost		-		-
2. Less: Earned Revenue		-		-
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
Net Program Costs	$	-	$	-
Civil Works				
1. Gross Cost		-		-
2. Less: Earned Revenue		-		-
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
Net Program Costs	$	-	$	-
Military Personnel				
1. Gross Cost		-		-
2. Less: Earned Revenue		-		-
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
Net Program Costs	$	-	$	-
Operations, Readiness & Support				
1. Gross Cost		2,457,993		1,971,565
2. Less: Earned Revenue		(176,548)		(111,256)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
Net Program Costs	$	2,281,445	$	1,860,309
Procurement				
1. Gross Cost		643,922		370,805
2. Less: Earned Revenue		(4,689)		(7,540)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
Net Program Costs	$	639,233	$	363,265
Research, Development, Test & Evaluation				
1. Gross Cost		323,007		308,798
2. Less: Earned Revenue		(46,002)		(57,087)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
Net Program Costs	$	277,005	$	251,711
Family Housing & Military Construction				
1. Gross Cost		3,904		942
2. Less: Earned Revenue		-		-
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
Net Program Costs	$	3,904	$	942
Consolidated				
1. Gross Cost		3,428,826		2,652,110
2. Less: Earned Revenue		(227,239)		(175,883)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		-		-
4. Costs Not Assigned to Programs		-		-
5. (Less: Earned Revenues) Not Attributed to Programs		-		-
Total Net Cost	**$**	**3,201,587**	**$**	**2,476,227**

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

The Statement of Changes in Net Position (SCNP) reports the change in net position for the period, which results from changes to cumulative results of operations. During FY 2019, changes for DISA GF primarily consists of budgetary financing sources – other for transfers-in/out and imputed financing from costs absorbed by others along with the net cost of operations.

The DISA GF does not have Funds from Dedicated Collections.

Note 21. Disclosures Related to the Statement of Budgetary Resources

The DISA GF operates primarily with funding derived from direct appropriations that are subject to cancellation by the time period in which funds may be used. An additional funding source is the use of reimbursable authority obtained from customer orders for services provided.

As of September 30, 2019, DISA GF incurred $3.7 billion in obligations, all of which are reimbursable and none of which are exempt from apportionment.

The total unobligated balance available as of September 30, 2019 is $523.4 million, and represents the cumulative amount of budgetary authority that has been set aside to cover future obligations for the current period.

The DISA GF Statement of Budgetary Resources includes intra-entity transactions because the statements are presented as combined.

As of September 30, 2019, DISA GF's Net Amount of Budgetary Resources Obligated for Undelivered Orders is $2.4 billion.

The DISA GF does not have any legal arrangements affecting the use of unobligated budget authority, and has not received permanent indefinite appropriations.

The amount of obligations incurred by DISA GF may not be directly compared to the amounts reported in the *Budget of the United States Government* because DISA GF funding is received and reported as a component of the "Other Defense Funds" program. The "Other Defense Funds" is combined with the service components and other DoD elements and then compared to the Budget of the United States Government at the defense agency level.

The implementation of OMB Circular A-136 changes affecting the Statement of Budgetary Resources, new lines/breakouts displayed for FY 2019 will contain blank amounts for FY 2018 comparative column, as they did not exist at that time.

Figure 21 - Budgetary Resources Obligated for Undelivered Orders at the End of the Period

(thousands)

	2019	2018
1. Intragovernmental		
A. Unpaid	1,645,723	2,339,723
B. Prepaid/Advanced	-	-
C. Total Intragovernmental	$ 1,645,723	$ 2,339,723
2. Non-Federal		
A. Unpaid	728,352	121,869
B. Prepaid/Advanced	20	13
C. Total Non-Federal	$ 728,372	$ 121,882
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 2,374,095	$ 2,461,604

Note 24. Reconciliation of Net Cost of Operations to Budget

The DISA GF Reconciliation of Net Costs to Outlays explains how budgetary resources applied during the period relate to the net cost of operations. This information is presented in a way that clarifies the relationship between the outlays reported through budgetary accounting and the accrual basis of financial (i.e., proprietary) accounting. The reconciliation provides the information necessary to understand how the budgetary outlays finance the net cost of operations and affect the assets and liabilities of the reporting entity.

Figure 22 - Reconciliation to the Net Cost of Operations to Net Outlays

(thousands)

2019	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ 2,417,591	$ 783,996	$ 3,201,587
Components of Net Cost That Are Not Part of Net Outlays:			
2. Property, Plant, and Equipment Depreciation	$ -	$ (34,522)	$ (34,522)
3. Property, Plant, and Equipment Disposal & Revaluation	-	(8)	(8)
4. Year-end Credit Reform Subsidy Re-estimates	-	-	-
5. Unrealized Valuation Loss/(Gain) on Investments	-	-	-
6. Other	-	-	-
7. Increase/(Decrease) in Assets:	-	-	
7a. Accounts Receivable	51,417	4	51,421
7b. Loans Receivable	-	-	-
7c. Investments	-	-	-
7d. Other assets	-	(116)	(116)
8. (Increase)/decrease in liabilities:	-	-	
8a. Accounts Payable	(7,197)	(34,341)	(41,538)
8b. Salaries and Benefits	(340)	(4,921)	(5,261)
8c. Insurance Guarantee Program Liabilities	-	-	-
8d. Environmental and Disposal Liabilities	-	-	-
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	32	(987)	(955)
9. Other Financing Sources:	-	-	
9a. Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(228,926)	-	(228,926)
9b. Transfers out (in) without Reimbursement	-	-	-
9c. Other Imputed Financing	-	-	-
10. Total Components of Net Cost That Are Not Part of Net Outlays	$ (185,014)	$ (74,891)	$ (259,905)
Components of Net Outlays That Are Not Part of Net Cost:			
11. Effect of Prior Year Agencies Credit Reform Subsidy Re-estimates	$ -	$ -	$ -
12. Acquisition of Capital Assets	86,048	234,450	320,498
13. Acquisition of Inventory	-	-	-
14. Acquisition of Other Assets	-	-	-
15. Other	0	-	0
16. Total Components of Net Outlays That Are Not Part of Net Cost	86,048	234,450	320,498
17. Other Temporary Timing Differences	-	-	-
18. Net Outlays	$ 2,318,625	$ 943,555	$ 3,262,180
19. Agency Outlays, Net, Statement of Budgetary Resources			$ 3,262,180
20. Reconciling Difference			$ 0

The following notes do not apply to DISA GF:

Note 4. Cash and Other Monetary Assets

Note 5. Investments and Related Interest

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers

Note 8. Inventory and Related Property, Net

Note 12. Debt

Note 14. Environmental and Disposal Liabilities

Note 18. Funds from Dedicated Collections

Note 22. Disclosures Related to Incidental Custodial Collections

Note 23. Fiduciary Activities

Note 25. Public-Private Partnerships

Note 26. Disclosure Entities and Related Parties

Note 27. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Compilation in the U.S. Government-wide Financial Report

Note 28. Restatements

Required Supplemental Information

1. Deferred Maintenance and Repairs Disclosures

In accordance with FASAB SFFAS 42 and FMR 6B, Chapter 12, paragraph 120301, DISA is to report material amounts of deferred maintenance and repairs (DM&R) on its financial statements. In FY 2019, DISA GF does not have DM&R to report. Due to the nature of DISA's business providing IT, Telecommunications and Computing Services in support of combat missions, all required maintenance is funded within the period required to meet performance requirements of DISA missions.

DM&R determination is based on development and annual review of an integrated project list of life-cycle replacement items and identification of needed maintenance. Analysis determines and identifies any replacement of life-cycle items in the year that the items are needed. A review is conducted annually to rank and prioritize maintenance and repairs (M&R) activities among other activities. The criteria for prioritizing M&R activities is life, safety, health, mission and general repairs. The integrated project listing review and preventative maintenance (PM) contracts from the project manager on equipment are considered in determining acceptable condition standards when deferred maintenance is not required. PM is performed on equipment at least quarterly on systems based on operations and maintenance contracts.

DISA GF does not have DM&R related to capitalized general PP&E, stewardship PP&E, non-capitalized or fully depreciated general PP&E. In addition, DISA GF does not have PP&E for which management does not measure and/or report DM&R. The rationale for excluding any PP&E asset other than if not capitalized or it is fully depreciated, is the item does not meet the applicable capitalization criteria, is not on the integrated project list, or there are preventative maintenance contracts in place to address maintenance needs in the current year.

No significant changes in policy, identification, or treatment of DM&R have occurred since the last fiscal year. In FY 2020, DISA GF will review and revise deferred maintenance reporting, as needed.

2. Schedule of Consolidation

The Schedule of Consolidation displays the Balance Sheet and Statement of Net Cost in a manner to clearly identify the fund and component level line balances for arriving at the combined totals, along with the elimination values for arriving at the consolidated totals. The component level values pertain to the reversal of prior year component level entries and current year entries for data call items that are not specifically identified to a fund, such as DoL FECA related expenses and liabilities and the imputed cost of real property. The SBR is presented as combined instead of consolidated due to intra-agency budgetary transactions not being eliminated.

Defense Information Systems Agency
General Fund
CONSOLIDATING BALANCE SHEET INFORMATION
As of September 30, 2019

Figure 23 – Consolidating Balance Sheet

(thousands)

	O&M	PROC	RDT&E	MILCON	Combined	Intra-Entity Eliminations	FY 2019 Consolidated
ASSETS							
Intragovernmental:							
Fund Balance with Treasury	$ 973,215	$ 1,668,122	$292,225	$ 27,149	$ 2,960,711	$ -	$ 2,960,711
Accounts Receivable	58,434	4,435	9,383	-	72,252	(2,585)	69,666
Total Intragovernmental Assets	$ 1,031,649	$ 1,672,556	$301,609	$ 27,149	$ 3,032,963	$ (2,585)	$ 3,030,377
Accounts Receivable, Net	287	-	11	-	298	-	298
General PP&E, Net	372,207	337,658	4,101	10,104	724,070	-	724,070
Other Assets	21	-	-	-	21	-	21
TOTAL ASSETS	$ 1,404,164	$ 2,010,214	$305,721	$ 37,253	$ 3,757,352	$ (2,585)	$ 3,754,766
LIABILITIES							
Intragovernmental:							
Accounts Payable	$ 100,177	$ 94,447	$ 5,818	$ 1,772	$ 202,214	$ (2,585)	$ 199,629
Other Liabilities	4,300	-	-	-	4,300	-	4,300
Total Intragovernmental Liabilities	$ 104,477	$ 94,447	$ 5,818	$ 1,772	$ 206,514	$ (2,585)	$ 203,929
Non-Federal:							
Accounts Payable	$ 10,908	$ 30,585	$ 1,139	$ (592)	$ 42,038	$ -	$ 42,038
Military Retirement and Other Federal Employment Benefits	5,703	-	-	-	5,703	-	5,703
Other Liabilities	55,396	-	7,043	-	62,439	-	62,439
TOTAL LIABILITIES	$ 176,484	$ 125,032	$ 14,000	$ 1,180	$ 316,694	$ (2,585)	$ 314,109
NET POSITION							
Unexpended Appropriations - Other Funds	883,036	1,512,512	289,403	25,969	2,710,920	-	2,710,920
Cumulative Results of Operations - Other Funds	344,644	372,670	2,318	10,104	729,737	-	729,737
TOTAL NET POSITION	$ 1,227,680	$ 1,885,182	$291,721	$ 36,073	$ 3,440,657	$ -	$ 3,440,657
TOTAL LIABILITIES AND NET POSITION	$ 1,404,164	$ 2,010,214	$305,721	$ 37,253	$ 3,757,352	$ (2,585)	$ 3,754,766

Defense Information Systems Agency
General Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2019

Figure 24 – Combining Statement of Budgetary Resources

(thousands)

	O&M	PROC	RDT&E	MILCON	Combined
Budgetary Resources (discretionary and mandatory):					
Unobligated balance from prior year budget authority, net	$ 73,541	$ 444,837	$ 102,556	$ 30,055	$ 750,988
Appropriations	2,186,198	789,693	326,112	(7,195)	3,294,808
Spending Authority from offsetting collections	151,072	7,903	59,692	-	218,667
Total Budgetary Resources	$2,510,810	$1,242,432	$ 488,360	$ 22,860	$4,264,463
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$2,430,178	$ 937,218	$ 364,114	$ 9,544	$3,741,054
Unobligated balance, end of year:					
Apportioned, unexpired accounts	9,156	287,941	109,608	10,508	417,213
Unexpired unobligated balance, end of year	9,156	287,941	109,608	10,508	417,213
Expired unobligated balance, end of year	71,476	17,274	14,638	2,808	106,196
Unobligated balance, end of year (total)	$ 80,632	$ 305,215	$ 124,246	$ 13,316	$ 523,409
Total Budgetary Resources	$2,510,810	$1,242,432	$ 488,360	$ 22,860	$4,264,463
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	$2,094,946	$ 850,581	$ 313,210	$ 3,443	$3,262,180
Agency Outlays, net (discretionary and mandatory	$2,094,946	$ 850,581	$ 313,210	$ 3,443	$3,262,180

Defense Information Systems Agency
General Fund
CONSOLIDATING STATEMENT OF NET COST
As of September 30, 2019

Figure 25 – Consolidating Statement of Net Cost

(thousands)

PROGRAM COSTS	O&M	PROC	RDT&E	MILCON	Combined	Intra-Entity Eliminations	FY 2019 Consolidated
Gross Costs	$ 2,463,584	$ 647,968	$ 327,441	$ 3,904	$ 3,442,897	$ (14,071)	$ 3,428,826
Less: Earned Revenue	(177,974)	(7,625)	(55,711)	-	(241,310)	14,071	(227,239)
Net Cost of Operations	$ 2,285,610	$ 640,343	$ 271,730	$ 3,904	$ 3,201,587	$ -	$ 3,201,587

Management Challenges

DEFENSE INFORMATION SYSTEMS AGENCY
JOINT FORCE HEADQUARTERS-
DEPARTMENT OF DEFENSE INFORMATION NETWORK
P. O. BOX 549
FORT MEADE, MARYLAND 20755-0549

19 November 2019

INSPECTOR GENERAL RESPONSE TO OMB-A-136 / SECTION II.4.3 MANAGEMENT CHALLENGES

Per Office of Management and Budget (OMB) Circular A-136, an Agency's Inspector General (IG) must provide a statement summarizing what the IG considers to be the most serious management and performance challenges facing the agency and assessing the Agency's progress in addressing those challenges.

To meet this requirement the IG reviewed recent audits, inspections, and other information to identify the following two continuing issues affecting agency performance:

- **Recruiting, Hiring, and Retention**

  The most notable management and performance challenge facing the Agency is the continued loss of productivity as a result of lengthy recruitment and hiring processes after a billet is created or vacated. The Agency has a significant number of unfilled position vacancies. The average time to fill a vacancy, from vacancy identification to an employee entering on duty (EOD), is approximately 263 days. The loss of productivity due to positions going unfilled is significant and felt across the agency.

  This is a known priority concern within the Agency. There are multiple concurrent efforts on-going to address the recruiting and hiring of new employees, to include but not limited to the creation of a new Recruiting Team, transition to Cyber Excepted Service (CES), utilization of Long-Term Announcements (LTAs), and expanded use of existing direct- hire authorities. To address retention concerns across the Agency, a Climate Synergy Group (CSG) has been established as an Agency-wide mechanism to increase employee engagement and communication.

- **Government Furnished Equipment (GFE)**

  Accurate and complete accountability of all government furnished equipment in the possession of contractors is a management and performance challenge facing the Agency.

  The Agency is aware of this challenge and continues to invest resources to ensure the Agency has a correct and accurate accounting of all GFP that is provided to contractors. The Agency is currently using a three phase approach, 1. Identify assets, 2. Inventory the assets, and 3. Ensure the assets are accounted for and documented in the system of record, DPAS.

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Date: 2019.11.19 14:10:10 -05'00'

James E. Gribble II
Acting Inspector General

DoD OIG Audit Report Transmittal Letter

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

January 21, 2020

MEMORANDUM FORUNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
INSPECTOR GENERAL, DEFENSE INFORMATION SYSTEMS AGENCY

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Information Systems Agency General Fund Financial Statements and Related Notes for FY 2019 and FY 2018 (Project No. D2019-D000FL-0108.000, Report No. DODIG-2020-053)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Information Systems Agency (DISA) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2019, and 2018. The contract required Kearney & Company to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether DISA's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018. Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DISA General Fund financial statements. As a result, Kearney & Company could not conclude whether the financial statements and related notes were presented fairly in accordance with generally accepted accounting principles. Accordingly, Kearney & Company did not express an opinion on the DISA General Fund FY 2019 and FY 2018 Financial Statements and related notes.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses five material weaknesses related to the DISA General Fund internal controls over financial reporting.* Specifically, Kearney & Company's report describes the following significant matters:

- DISA, in coordination with its service organization, was unable to provide sufficient documentation for suspense account, Cash Management Report, and Statement of Differences samples and did not document its Cash Management Report end-to-end reconciliation process, which affects DISA's ability to support the completeness and accuracy of its Fund Balance with Treasury.

- DISA was unable to provide sufficient documentation for any revenue samples to support the validity and accuracy of its Earned Revenue and related budgetary accounts.

- DISA had multiple issues with Accounts Payable and Expenses. For example, DISA did not properly implement internal controls to review, validate, and update the accrual percentage calculations that generate expense transactions recorded in FY 2019. In addition, DISA was unable to provide sufficient documentation for expense samples to support the validity and accuracy of its Gross Costs.

- DISA did not have effective controls in place to liquidate invalid Unfilled Customer Orders, de-obligate invalid Undelivered Orders, and record obligations in the financial management systems in a timely manner, which affects the accuracy of Budgetary Resources.

- DISA had deficiencies in the design and operating effectiveness of internal controls related to the core accounting system, key financial support systems, and service organization systems. While no single control deficiency met the level of a material weakness, the accumulation of these deficiencies resulted in a material weakness due to the pervasiveness of the weaknesses throughout the information system environment and DISA's reliance on these systems for financial reporting.

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

Kearney & Company's additional report, "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements," discusses three instances of noncompliance with applicable laws and regulations. Specifically, Kearney & Company's report describes instances where DISA did not comply with the Federal Manager's Financial Integrity Act of 1982, the Federal Information Security Modernization Act of 2014, and the FFMIA.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DISA General Fund FY 2019 and FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether the DISA General Fund's financial systems substantially complied with FFMIA requirements, or on compliance with laws and other matters. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached reports, dated January 21, 2020, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

Independent Auditors Report

KEARNEY&
COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT

To the Director, Defense Information Systems Agency, and the Inspector General of the Department of Defense

Report on the Financial Statements

We were engaged to audit the accompanying consolidated General Fund (GF) financial statements of the Defense Information Systems Agency (DISA), which comprise the balance sheets as of September 30, 2019 and 2018, the related statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits 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. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion section below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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. We identified a material amount of unreconciled transactions and unexplained variances that potentially impact the completeness and accuracy of DISA's financial statements. DISA utilizes a service organization, which supports multiple other Federal entities, to process disbursement and collection transactions. We identified a material amount of disbursements and collections which were processed; however, DISA's service organization was unable to assign the transactions to a specific entity because of various transactional errors or insufficient business practices. We also identified unreconciled differences between the service organization's records and amounts reported by the U.S. Department of the Treasury. DISA and its service organization were unable to provide evidential matter to validate that these unresolved and unreconciled items did not impact DISA's financial statements. As of September 30, 2019, DISA reported $3 billion in Fund Balance with Treasury on its balance sheet.

We were unable to obtain sufficient appropriate audit evidence to support the existence and accuracy of Accounts Receivable, Accounts Payable, Earned Revenue, Gross Costs, and the related budgetary accounts. DISA's implementation of a new general ledger system in fiscal year (FY) 2019 led to delays in its ability to provide complete and accurate transaction-level financial data. This significantly impacted the initiation of our audit procedures and was the primary reason for DISA's inability to provide sufficient audit evidence in these areas.

As of September 30, 2019, DISA reported $70 million in Accounts Receivable and $242 million in Accounts Payable on its balance sheet. As of September 30, 2019, DISA reported $227 million of Earned Revenue and $3.4 billion of Gross Costs on its statement of net cost.

The effects of the conditions in the preceding paragraphs and overall challenges in obtaining sufficient audit evidence limited our ability to execute all planned audit procedures. As a result, we were unable to determine whether any adjustments were necessary to DISA's financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, other Required Supplementary Information, and Required Supplementary Stewardship Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information as named in the Agency Financial Report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated January 21, 2020, on our consideration of DISA's internal control over financial reporting and on our tests of DISA's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2019. 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. 19-03 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
January 21, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Director, Defense Information Systems Agency, and the Inspector General of the Department of Defense

We were engaged to audit, in accordance with the 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. 19-03, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2019, and we have issued our report thereon dated January 21, 2020. 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.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered DISA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DISA's internal control. Accordingly, we do not express an opinion on the effectiveness of DISA's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-03. 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 were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

KEARNEY& COMPANY

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 noted certain additional matters involving internal control over financial reporting that we will report to DISA's management in a separate letter.

DISA's Response to Findings

DISA's response to the findings identified in our engagement is described in a separate memorandum attached to this report in the Agency Financial Report. DISA's response was not subjected to the auditing procedures applied in our engagement of the financial statements; accordingly, we do not express an opinion on it.

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 DISA'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. 19-03 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
January 21, 2020

Schedule of Findings

Material Weaknesses

Throughout the course of our audit work at the Defense Information Systems Agency (DISA), we identified internal control deficiencies, which were considered for the purposes of reporting on internal control over financial reporting. The material weaknesses presented in this Schedule of Findings have been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal control over financial reporting. The table below presents the material weaknesses identified during our audit:

Material Weakness	Material Weakness Sub-Category
I. Fund Balance with Treasury	A. Suspense Accounts B. Statements of Differences C. Creation of the Cash Management Report D. Cash Management Report Variances Not Supported
II. Accounts Receivable/Revenue	Revenue Samples Not Supported
III. Accounts Payable/Expense	A. Intra-Entity Eliminations B. Data Deficiencies C. Potential Overstatement of Accounts Payable, Expense, and Related Budgetary Accounts D. Lack of Accounts Payable Accrual Validation E. Expense Samples Not Supported
IV. Budgetary Resources	A. Invalid Unfilled Customer Orders B. Invalid Undelivered Obligations C. Untimely Undelivered Order Transactions D. Inaccurate Recoveries of Prior-Year Unpaid Obligations
V. Information Technology	Information System Security Controls

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

Deficiencies in four related areas, in aggregate, define this material weakness:

A. Suspense Accounts
B. Statements of Differences
C. Creation of the Cash Management Report
D. Cash Management Report Variances Not Supported.

A. Suspense Accounts

Background: DISA uses a service organization to manage, report, and account for Fund Balance with Treasury (FBWT) Clearing (Suspense) Account activities. Clearing accounts temporarily hold unidentifiable collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the receiving entity. The U.S. Department of the

Treasury (Treasury) allows entities with a justifiable business need to use suspense accounts as a temporary holding place for transactions. However, the transactions should be cleared within 60 days.

DISA's accounting system, the Defense Agencies Initiative (DAI), uses several feeder systems to process collection and disbursement transactions. These feeder systems are shared by DISA with other Defense agencies and departments. During input to the feeder systems or interfaces with DISA's general ledger (GL), it is possible for a transaction to be processed with an invalid Treasury Account Symbol (TAS) or fiscal year (FY). When this occurs, the transactions are recorded in a suspense account. DISA's service organization reports activity recorded to suspense accounts to Treasury monthly. Because suspense transactions are recorded in a Treasury clearing account and those accounts are not specific to a particular agency, amounts recorded in suspense are not reflected in the FBWT balances of DISA unless it is determined that the transaction pertains to DISA and the activity is "cleared" out of suspense to DISA's line of accounting (LOA). As such, the transactions in the suspense accounts represent a financial reporting completeness risk to all Department of Defense (DoD) organizations until they are researched and cleared. There were over 375 thousand transactions in DoD suspense accounts with a net value of $295 million and an absolute value of $31.6 billion as of September 30, 2018.

Condition: DISA, in coordination with its service organization, was unable to provide sufficient documentation for 487 (43% of the total) suspense samples for the September 30, 2018 balances, which were tested to determine whether or not the transactions related to DISA.

Cause: DISA has not established and documented effective controls to ensure that suspense accounts are: only used for valid reasons, identified to the proper entity in a timely manner, and properly supported.

The majority of transactions in DoD's suspense accounts were placed there as part of various established processes, rather than through processing errors or a lack of documentation relating to the transaction. For example, the DoD suspense accounts are regularly used for activity related to recycling revenue, trademark and licensing revenue, agricultural revenue, Army Military Pay, the Office of Personnel Management (OPM) Retirement and Insurance Transfer System (RITS), and taxes related to Air Force travel.

DISA's service organization does not maintain sufficient supporting documentation for the transactions posted in the Treasury Index (TI) 17, TI 21, TI 57, and TI 97 suspense accounts, including transactions related to the established processes and business activities previously listed.

Systems used by DISA's service organization to process disbursement and collection activity on behalf of the Military Departments and Other Defense Organizations (ODO) (including DISA) lack sufficient edit checks to prevent processing of transactions for which TI, TAS, and FY information cannot be reliably determined.

Effect: Ineffective procedures to research, clear, and document suspense activity impacts DISA's ability, in coordination with its service organization, to support the completeness and accuracy of DISA's FBWT. Transactions that represent a material amount to DISA may reside in suspense accounts and be omitted from DISA's financial statements. A lack of documentation supporting the owner entity for suspense transactions results in a completeness risk to DISA's FBWT.

Recommendation: Kearney & Company, P.C. (Kearney) recommends that DISA perform the following:

1. Continue to work with its service organization to strengthen system and process controls to ensure that disbursements and collections are processed with valid TI, TAS, and FY inputs.
2. Continue to work with its service organization to strengthen internal controls over suspense accounts, including:
    a. Develop and implement effective controls to ensure that transactions are cleared from suspense accounts on a timely basis and sufficient supporting documentation is maintained to demonstrate to which entity the transactions were cleared and that the entity to which it was cleared was appropriate.
    b. Develop and implement processes and controls to eliminate instances where transactions are being placed in suspense accounts intentionally.
    c. Develop and implement procedures for document retention to maintain sufficient support for all transactions.

B. Statements of Differences

Background: DISA's service organization provides daily Non-Treasury Disbursing Office (NTDO) disbursing services under various Agency Location Codes (ALC), often referred to as Disbursing Station Symbol Numbers (DSSN). Additionally, DISA's service organization provides monthly Treasury reporting services under various reporting ALCs, which are different than disbursing ALCs. The NTDO ALCs (or DSSNs) are shared by agencies and reported by DISA's service organization to Treasury. Multiple Defense agencies can use one ALC as reported in the Central Accounting Reporting System (CARS). The Statement of Difference (SOD) reports generated in CARS do not report agency-level data, but rather balances by ALC, thus making it difficult to determine the agencies impacted by the SOD balances. As of December 31, 2018, all of DISA's primary DSSNs were NTDO.

Treasury compares data submitted by financial institutions and Treasury Regional Financial Centers to determine the accuracy and completeness of the collection and disbursement activity submitted. Discrepancies are reported in Treasury's CARS monthly for each reporting ALC by accounting month (month the report is generated) and accomplished month (month the difference occurred). Disbursing Officers at DISA's service organization are responsible for applicable ALCs and are required to research and resolve SOD differences monthly. Failure to resolve reconciling items timely impairs the underlying integrity of the financial statements and may result in material errors.

Condition: DISA, in coordination with its service organization, was unable to provide sufficient documentation for 90 (8% of the total) SOD samples for the December 31, 2018 balances. The 90 samples noted as exceptions accounted for $156,612,306 (net) of the total $533,070,594 (net) in samples.

Cause: Treasury's CARS only reports SODs at the ALC level and does not provide LOA information to allow DISA or its service organization to easily identify the agency responsible for the differences. The shared ALCs and lack of LOA information make it difficult to identify and resolve differences timely.

DISA's service organization does not maintain effective processes for entering transactions into accountability systems and reporting to CARS timely. The majority of transactions in the SOD balances tested were due to timing differences between when funds were disbursed/collected by the Federal Reserve and when they were recorded in an accountability system and reported to CARS. The testing results showed that funds are often paid or collected by the Federal Reserve but not entered into an accountability system and reported to CARS until more than 30 days later, and often more than six months later.

DISA's service organization does not:

- Have effective procedures in place for ensuring that transactions recorded in accountability systems have the correct DSSNs listed to tie to Treasury at the DSSN/ALC level
- Maintain sufficient supporting documentation for the transactions which make up the Deposits in Transit SOD balances in DSSNs 3801, 5570, and 8522.

DISA does not maintain effective processes to monitor and track its primary DSSNs and the SOD balances for those DSSNs.

Effect: Ineffective procedures to research, document, support, and reconcile SOD transaction activity impact DISA's ability to support the completeness and accuracy of its FBWT. Transactions that represent a material amount to DISA may reside in the SOD balances of DISA's primary DSSNs and be omitted from DISA's financial statements. A lack of documentation supporting the owner entity for these transactions results in a completeness risk to DISA's FBWT. The DISA financial statements may be materially misstated, and these misstatements may not be detected and corrected timely.

Recommendation: Kearney recommends that DISA perform the following:

1. Continue to work with Treasury, the Office of the Secretary of Defense (OSD), DISA's service organization, and other parties to transition away from using monthly NTDO reporting ALCs to daily Treasury Disbursing Office reporting ALCs.
2. With the support of its service organization, continue to develop and implement a methodology to identify the actual or estimated impact of SOD amounts that should be attributed to DISA's FBWT account.

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3. Work with Treasury, OSD, and its service organization to establish an ALC that processes DISA's transactions exclusively.
4. Assist its service organization by providing supporting information to clear transactions timely.
5. Identify ALCs that primarily report collection and disbursement activity to Treasury on behalf of DISA and reconcile them timely each month.
6. Implement processes to ensure timely processing of disbursements and collections in the accountability systems to reduce the time gap between when a cash transaction is processed by the Federal Reserve and when it is reported to Treasury.
7. Implement processes and controls which would ensure that the DSSNs reported to Treasury for monthly disbursement and collection data are accurate and match the cash-flow entry from the Federal Reserve.
8. Continue developing a common approach and timeframe across its service organization's locations related to researching and resolving SODs monthly.
9. Continue to monitor and track the resolution of SODs cleared to DISA to be able to perform root cause analysis and create projections of potential outstanding unresolved balances. Using results of root cause analysis, DISA should implement procedures to reduce the amounts reported on SODs.

C. Creation of the Cash Management Report

Background: DISA is one of the TI-97 ODOs whose funds are aggregated at Treasury. Treasury maintains and reports FBWT balances at the TAS level, rather than at the limit level, which would distinguish DISA's FBWT balance from the aggregated ODO FBWT amount. DISA's service organization produces the Cash Management Report (CMR) to provide ODOs with their individual FBWTs at the limit level. The CMR creation process is complex and requires the compilation of data from multiple sources and systems, including:

- Collection and expenditure activity from approximately 335 DoD DSSNs that report expenditure activity to DISA's service organization
- Collection and expenditure activity from 11 non-DoD ALCs
- Treasury CARS data
- Budgetary data obtained from the Program Budget and Accounting System (PBAS)
- Additional data files, such as the OSD Limit Conversion File and Edit Table 4 File.

DISA's service organization consolidates the expenditure and budgetary data in one system and then transfers the compiled activity to a separate database to create the CMR. The CMR is disaggregated and used to generate TI-97 Audit Workbooks and is ingested into the Defense Departmental Reporting System – Budgetary (DDRS-B) to calculate automated undistributed adjustments that force DISA's FBWT balance to reconcile to the CMR at the limit level.

Condition: Internal control deficiencies were identified in the CMR creation process used by DISA's service organization which negatively impact DISA's ability to support the completeness and accuracy of its FBWT balance. Specifically, sufficient documentation of the beginning-to-end business processes and controls in place for creation of the CMR is not maintained. The current CMR procedure documents do not sufficiently identify procedures performed to validate the completeness and accuracy of the input files to the CMR, identify controls, or adequately describe the beginning-to-end CMR creation process and its effect on the reliability of the data contained in the CMR. The CMR Standard Operating Procedure (SOP) does not clearly indicate key controls over the process or provide sufficient background and context around the steps performed. Additionally, data validation procedures are not performed, which results in a failure to ensure the source files used to create the CMR reconcile back to the original source systems.

Cause: DISA shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA is dependent on a service organization to provide the FBWT amount on the financial statements. DISA's service organization personnel are often able to explain the details and CMR creation process, but its service organization has not sufficiently documented the beginning-to-end business processes and internal control activities that support the explanations or its assertions. In addition, DISA has not fully developed compensating controls to ensure that its FBWT is complete and accurate.

Effect: The internal control deficiencies surrounding the CMR creation process may impact DISA's ability to: 1) support its financial statement balances in a timely manner; 2) support the completeness and accuracy of its FBWT; and 3) decrease the risk that errors or necessary adjustments exist but go undetected by management. DISA is unable to support the completeness and accuracy of its FBWT without sufficiently documented procedures and controls over the generation of the CMR. The internal control deficiencies over the creation of the CMR also mean that the assignment of transactions in the CMR to various ODOs may not be accurate. As a result, DISA's financial statements may contain significant misstatements that may not be detected and corrected in a timely manner.

Recommendation: Kearney recommends that DISA perform the following:

1. Work with the U.S. Treasury to establish subaccounts under the basic symbols used by DISA (0100, 0300, 0400, 0500) that are unique to Agency so that it can obtain CARS reports to document its FBWT balance directly from Treasury and remove the need for the creation of the CMR.
2. Work with its service organization to develop and formally document the beginning-to-end business process and internal controls for the CMR creation process in a written narrative and flowchart that includes the following information, at a minimum (not an all-inclusive list):
    a. Process description at a detail level: Provide a description of each process at the detail level in the order in which it occurs to allow for traceability from the beginning to the end of the process.
    b. Key personnel/process owner: Clearly identify the name/title/role of the individual executing the transaction or performing the process.
    c. Key control activities: Identify who, what, when, and how the control activity is performed and how performance of the control is documented and evidenced.
    d. Key supporting documents: Identify the written document(s) that support execution of the process or transaction.

   e. Relevant laws and regulations and policies/procedures: Identify laws, regulations, policies, and procedures relevant to the process.
3. Ensure the written narrative and flowchart are updated on a regular basis.
4. Coordinate with its service organization to establish regular reviews and updates to the written narrative and flowchart based on new or changed processes or controls, such that they are readily available for review.
5. Implement appropriate data validation controls of the source files used to create the CMR as they are gathered and transferred from system to system during the creation of the CMR process.
6. Create the CMR in a system with appropriate general application information technology (IT) controls to prevent changes to the data without appropriate authorization.

D. CMR Variances Not Supported

Background: DISA is one of the TI-97 ODOs whose funds are aggregated at Treasury. Treasury maintains and reports FBWT balances at the TAS level, rather than at the limit level, which would distinguish DISA's FBWT balance from the aggregated ODO FBWT amount. DISA's service organization produces the CMR to provide ODOs with their individual FBWTs at the limit level.

DISA's service organization reports changes to the FBWT account to Treasury monthly under various ALCs. Monthly, activity from four-digit reporting ALCs (often referred to as DSSN) is submitted to Treasury on the Standard Form (SF)-1219, *Statement of Accountability*, and SF-1220, *Statement of Transactions*. NTDO ALCs are shared by agencies, including DISA, and reported by DISA's service organization to Treasury. Multiple Defense agencies can use one ALC, as reported in CARS. As of September 30, 2018, all of DISA's primary DSSNs were NTDO, making it difficult to distinguish DISA's activity from other ODOs in the SF-1219s and SF-1220s.

Following the creation of the CMR, DISA's service organization produces a workbook called the TI-97 GF FBWT Recon (also referred to as the "Audit Workbook"). The Audit Workbook is a summary of the CMR, broken out into different categories, including three reconciling items. The reconciling items on the September 2018 Audit Workbook are: Valid Unfunded, Edit Errors *999 (L9), and Unvouchered Intragovernmental Payment and Collection (IPAC). The transactions which make up the reconciling items' balances are not identified to an agency at the time of reporting and, therefore, are not reported on any specific ODO's financial statements, including DISA's. These transactions could potentially result in material misstatements for any one specific TI-97 agency, including DISA.

Condition: DISA, in coordination with its service organization, was unable to provide sufficient documentation for the following:

- One hundred and thirty-seven (63% of total) L9 samples, which accounts for approximately $6,526,579 (net) of the total $7,128,312 (net) in samples

- Thirty-seven (10% of the total) Unvouchered IPAC samples, which accounts for approximately $4,891,514 (net) of the total ($6,318,832) (net) in samples
- One hundred and seven (48% of the total) Valid Unfunded samples, which accounts for approximately $48,849,822 (net) of the total $49,144,864 (net) in samples.

Cause: DISA shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA is dependent on its service organization to provide the FBWT amount on the financial statements. DISA's service organization does not have sufficient procedures in place to regularly research and resolve the reconciling differences and unidentified differences noted in the CMR TI-97 GF Audit Workbook.

DISA has not fully developed compensating controls to ensure its FBWT is complete and accurate.

DISA's service organization does not maintain sufficient supporting documentation for the transactions which make up the Valid Unfunded, L9, and Unvouchered IPAC balances on the CMR.

Effect: Ineffective procedures to research, document, and support CMR reconciling items transaction activity impact DISA's ability, in coordination with its service organization, to support the completeness and accuracy of DISA's FBWT. Transactions that represent a material amount to DISA may reside in the CMR reconciling items' balances of DISA's primary DSSNs and be omitted from DISA's financial statements. A lack of documentation supporting the owner entity for these transactions results in a completeness risk to DISA's FBWT. The DISA financial statements may be materially misstated, and these misstatements may not be detected and corrected timely.

Recommendation: Kearney recommends that the entities listed below perform the following:

DISA:

1. Work with Treasury to establish subaccounts under the basic symbols used by DISA (0100, 0300, 0400, 0500) that are unique to the Agency so that it can obtain CARS reports to document its FBWT balance directly from Treasury and remove the need for the creation of the CMR.
2. Work with Treasury, OSD, DISA's service organization, and other parties to transition away from using monthly non-CARS reporting ALCs to daily full CARS reporting ALCs.
3. With the support of DISA's service organization, develop and implement a methodology to identify the actual or estimated impact of CMR differences amounts that should be attributed to DISA's FBWT account.
4. Work with Treasury, OSD, and DISA's service organization to establish an ALC that processes DISA's transactions exclusively.

DISA's service organization:

1. Continue to develop and implement procedures to resolve differences between the CMR and CARS monthly and identify the agencies that are impacted by the differences.
2. Document the newly developed procedures in an SOP and regularly update and maintain the document.
3. Monitor and track the resolution of the various CMR differences categories cleared to DISA to enable DISA to perform root cause analysis and create projections of potential outstanding unresolved balances.

II. Revenue/Accounts Receivable *(Repeat Condition)*

Background: DISA participates in activities that generate revenue transactions reported on the Statement of Net Cost on DISA's September 30, 2019 financial statements. DISA's General Fund revenues are generated by providing information system services to other agencies and non-governmental trading partners. DISA's General Fund revenues for the period ended September 30, 2019 totaled $227 million.

For revenue transactions, DISA generates the SF-1080 for the goods provided or services performed. At the beginning of the month, DISA generates bills for the services it provided to its customers. DISA's SF-1080s are processed through Defense Cash Accountability System, IPAC, or 1080-Print and collected on behalf of the Agency.

Condition: DISA was unable to provide complete and sufficient documentation for 262 (100% of the total) Revenue samples to support transactions recorded in the Revenue GL accounts. In many cases, DISA provided vouchers as supporting documentation, such as an SF-1080. However, these vouchers do not contain sufficient details to confirm the validity and accuracy of the transaction, such as a detailed description and the date the services were provided.

Cause: DISA was unable to sufficiently support its revenue transactions in the time allowed for testing. Sufficient documentation was not readily available in a complete and consistent manner, such as the dates the services were provided. DISA officials indicated that its transition to a new GL accounting system during FY 2019 impacted its ability to support the audit. Further, because of the previously identified scope limitations over DISA's FBWT account and their impact on DISA's audit opinion, DISA officials made a cost-benefit decision to not exhaust further resources on gathering the missing documentation to support its FY 2019 revenue transactions.

Effect: Due to the lack of readily available invoice and billing documentation for DISA's General Fund revenue transactions, DISA is unable to support the validity and accuracy of its Earned Revenue and related budgetary accounts.

Recommendation: Kearney recommends that DISA perform the following:

1. Strengthen its process to ensure that source documentation for its financial transactions is readily available in a complete and consistent manner.

III. Accounts Payable/Expense (*Repeat Condition*)

Deficiencies in five related areas, in aggregate, define these material weaknesses:

A. Intra-Entity Eliminations
B. Data Deficiencies
C. Potential Overstatement of Accounts Payable, Expense, and Related Budgetary Accounts
D. Lack of Accounts Payable Accrual Validation
E. Expense Samples Not Supported.

A. Intra-Entity Eliminations

Background: DISA's General Fund buys and sells goods and services between its various programs (funds): Operations and Maintenance (0100); Procurement (0300); Research, Development Test and Evaluation (0400); and Military Construction (0500). The goods and/or services typically include joint service provider telecommunication and network services, DISA applications testing, and interoperability testing and certification for DISA programs. Similar to business activities with other parties, intra-entity business also creates Accounts Receivable, Revenue, Accounts Payable, and Expense transactions within the financial accounting system, DAI.

For purposes of financial reporting, intra-entity activity and balances are eliminated on the financial statements to prevent overstatement for business with itself. For the period ended June 30, 2019, DISA eliminated $82 million.

Condition: DISA provided transaction-level detail for all GL accounts as of June 30, 2019 to support the balances recorded on the trial balance. The transaction data did not identify intra-entity activity at the transaction level for all GL accounts. Specifically, DISA was unable to identify intra-entity elimination activity within the GL Revenue subledger population. DISA was only able to identify intra-entity activity through the Expense subledger population. DISA noted that it uses details from the Expense activity to adjust the amounts from the Revenue population.

The amount DISA reported for intra-entity eliminations on its June 30, 2019 financial statements did not agree to the amount in the subledger populations. DISA reported eliminations of $21.5 million on its June 30, 2019 financial statements versus $82 million in the subledger populations. Additionally, the $82 million in the Revenue eliminations subledger did not agree to the $48 million in the Expense eliminations subledger. DISA confirmed that elimination balances were inaccurate as of June 30, 2019 and was working to make corrections for the September 30, 2019 financial statements.

Cause: DISA does not have an effective process in place to identify intra-entity eliminations at the transaction level and cannot reasonably rely on the accuracy of the data for its Revenue population. DAI does not accurately populate a data element, such as the Trading Partner code, that DISA can use to easily identify intra-entity activity within its Revenue population; therefore, DISA relies on its Expense detail population to identify intra-entity activity for both Revenue and Expense. Because DAI does not currently record the Trading Partner codes accurately, DISA uses a manual process outside of DAI to calculate eliminations.

Effect: DISA cannot support the amounts reported as eliminations on its June 30, 2019 Statement of Net Cost. By relying solely on the Expense GL detail to identify eliminations for both Expense and Revenue on the Statement of Net Cost, DISA is not performing a reconciliation of its intra-entity activity. This could lead to a misstatement on the September 30, 2019 financial statements. DISA management could not provide a universe of transactions to support audit testing as of June 30, 2019.

Recommendation: Kearney recommends that DISA perform the following:

1. Develop and document a process to record a data element, such as Trading Partner codes, into DAI Expense and Revenue subledger populations so eliminations can be accurately identified at the transaction level and reported on the financial statements.
2. Utilize the Revenue subledger population to identify and record eliminations for Revenue on the Statement of Net Cost and use the Expense subledger population to identify and record eliminations for Expense on the Statement of Net Cost.
3. Develop and document monitoring and reconciliation procedures between the Revenue and Expense populations for elimination activity recorded in each subledger.

B. Data Deficiencies

Background: DISA transitioned its GL accounting system from the Washington Headquarters Services Allotment and Accounting System (WAAS) to DAI in FY 2018. DAI is hosted on the DISA Ecosystem but owned and managed by the Defense Logistics Agency (DLA). In accordance with DoD Financial Management Regulation (FMR), DAI is required to follow the United States Standard General Ledger (USSGL). Accounting records assist in financial controls over resources and provide managers with a tool to effectively exercise stewardship over the resources.

DISA management worked closely with its accounting service organization and DLA to implement the system conversion from WAAS to DAI. DISA's responsibilities included cleansing legacy system data to ensure accuracy and completeness, certifying source data was valid and acceptable for conversion, testing and reconciling the converted data, and validating the accuracy of all data converted during the final cut-over period to production. DISA's accounting service organization's responsibilities included staging legacy data and converting to DAI Oracle target data structures, providing guidance and information for external compliance, and designing, building, testing, and executing Extract, Transform, Load tool conversion programs. DISA and its accounting service organization shared responsibility for identifying potential issues related to process or data changes, as well as resolving any issues or problems associated with the data conversion in a timely manner.

Condition: DISA management was unable to provide transaction-level detail for all GL accounts as of March 31, 2019 to initiate audit testing. DISA's GL detail reports contained several shortcomings provided by DISA, including:

- Some records in the GL reports represented multiple transactions recorded at a summary level. For example, multiple vendor invoices or Military Interdepartmental Purchase Requests (MIPR) were reported as a single record
- GL data for DISA's Expense accounts did not include codes that differentiate between Operating Expense, Payroll, and Depreciation
- The Expense data also did not include an object class code to identify the transaction type (e.g., rent, supplies, professional services)
- Lack of a supporting schedule of DISA's March 31, 2019 Undelivered Order (UDO) population to include fields such as obligation number, obligated amount, liquidated amount, available amount, established date, and last activity date. DISA provided an Obligation Status Report that differed from the DAI trial balance by $540 million.

Cause: DISA was unable to produce complete and accurate GL reports due to limited system (DAI) functionality, DISA's lack of training related to DAI reporting, and limited users having access to the system reports. DISA officials indicated that they were still becoming accustomed to DAI's reporting capabilities. DISA collaborated with its service organization, DLA, in an attempt to resolve the issues, but solutions were not implemented in time to facilitate the performance of our audit procedures. Therefore, DISA created its own queries and outputs, as well as summarized the data due to data constraints and file size limitations.

Effect: The lack of readily available transaction-level data limits DISA's ability to comply with Federal Managers' Financial Integrity Act of 1982 (FMFIA) by performing certain internal control procedures, such as GL reconciliations and producing tie-outs for amounts reported in the financial statements. It also inhibits DISA's ability to comply with USSGL at the transaction level and limits its ability to provide accurate and timely information to management officials. Additionally, insufficient GL data reports prevented initiation of audit testing over DISA's interim account balances. Although DISA was able to provide usable transaction-level data to facilitate sample-based testing as of September 30, 2019, the audit process was delayed, as DISA required additional time to resolve the DAI reporting limitations and identify manual corrective actions.

Recommendation: Kearney recommends that DISA perform the following:

1. Continue to work with DLA to determine the most efficient way to produce GL transaction-level detail with the required fields, including general ledger account code (GLAC) and object class code, for internal reporting and external auditors.
2. Coordinate training for its DAI users, including an understanding of DAI's reporting functionality.
3. Develop routine processes to produce accurate and reliable reports at the transaction level to facilitate external audits and internal management controls.

C. Potential Overstatement of Accounts Payable, Expense, and Related Budgetary Accounts

Background: DISA transitioned its GL accounting system from WAAS to DAI in FY 2019 DISA uses an automated accrual, which is posted monthly for 97% of the obligated amount, equally over the period of performance of the contract. An Accounts Payable accrual estimate is intended to recognize amounts owed by DISA for goods and services received, but not yet invoiced.

The conversion to DAI created significant "unmatched" transactions, where DISA's service organization makes payments on behalf of DISA that do not match to a document within DAI. Unmatched transactions occur for multiple reasons, such as truncated document numbers, payment amounts being higher than the accrual balance, and typos (e.g., "0" versus "O"). The "unmatched" disbursement creates a new expense transaction, which could be previously accounted for via DISA's automated accrual schedule.

DISA performs manual research to determine why the transaction did not post to the correct project and coordinates with its service organization to post the correction to clear the unmatched transaction in DAI. To preserve the accuracy of the financial information system, it is important to clear unmatched transactions timely.

Condition: DISA's current business process and flawed control structure allow payments to be processed without matching to a project in DAI. These design deficiencies allow payments to be made without the reduction to an existing outstanding payable at the project level. In order to clear unmatched transactions from DAI, a manual process of research and coordination with DISA's service organization is required. This manual process introduces more chances of misstatement and is inherently inefficient. Instead of paying invoices and posting an accrual at the end of each period, DISA posts accruals monthly, and adjusts the accrual based on invoices received. DISA's automated accrual schedule posts entries on a monthly basis for service contracts which increase Operating Expenses, Accounts Payable, and the related budgetary accounts.

As invoices are received and paid, DISA reduces the outstanding Accounts Payable within the project-level accrual. In some situations, a payment processed by DISA's service organization does not match a document number (project) within DISA GF's accounting system, DAI, and, therefore, does not reduce the outstanding Accounts Payable. These transactions, called "unmatched disbursements," create multiple transactions unrelated to the correct project within DAI and result in increasing Operating Expenses, Accounts Payable, and the related budgetary accounts.

For the period ended September 30, 2019, the following amounts remained unmatched:

- Expense – $65 million
- Accounts Payable – $65 million
- Undelivered Orders – $58 million.

DAI's posting logic for unmatched disbursements conflicts with DISA's expense accrual business rules. A payment that does not match to its project on DISA's accrual schedule (unmatched disbursement) accounts for the same transaction twice.

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed if they cannot be matched to a valid obligation. DISA's process to clear unmatched transactions within DAI involves manual research and relies on DISA's service organization to post correcting entries into DAI. DISA and its service organization did not clear unmatched transactions timely for the period ended September 30, 2019. DISA did not perform an analysis or implement a control to reduce the risk of overstating Expense, Accounts Payable, and related budgetary accounts due to unmatched transactions and conflicting posting logic within DAI.

Effect: Unmatched transactions that remain unmatched for the period ended September 30, 2019 could potentially overstate the Accounts Payable (Balance Sheet), Gross Costs (Statement of Net Cost), and New Obligations Incurred (Statement of Budgetary Resources) financial statement line items. DISA's accrual methodology and DAI's posting logic for unmatched disbursements creates the risk that the same economic event is accounted for twice.

Recommendation: Kearney recommends that DISA perform the following:

1. Coordinate with its service organization to establish and maintain controls to prevent disbursements from being processed if they are not matched to a valid obligation.
2. Coordinate with its service organization to establish controls to clear unmatched Expense transactions in a timely manner and reduce the remaining transactions to a trivial amount.
3. Perform an analysis over the unmatched Expense population and the contract accrual population to determine the dollar amount impact of overstatements in order to post an adjustment based on the analysis.

D. Lack of Accounts Payable Accrual Validation

Background: In FY 2006, DISA developed new expense recognition procedures. DISA performed an analysis that determined a lag (or "gap") existed between the period services were provided versus the date of the vendor invoice. DISA then documented this procedure as the "gap" accrual. DISA transitioned its GL accounting system from WAAS to DAI in FY 2019 and continued to utilize the "gap" accrual.

DISA has various service-based contracts, which typically execute continually throughout the period of performance. Due to the lag in receiving the vendor invoice, expenses must be accrued to recognize the costs in the actual period the service was rendered in accordance with Generally Accepted Accounting Principles (GAAP). An Accounts Payable accrual estimate is intended to recognize amounts owed by DISA for goods and services received, but not yet invoiced; and amounts invoiced, but not yet paid at the end of the accounting period. Management is responsible for developing reasonable estimates based on assumptions and relevant factors and comparing estimates with subsequent results to assess the reliability of the estimate process. DISA determined that, historically, it disburses 97% of the value of its contracts.

Condition: Significant assumptions that support accounting estimates should be periodically validated through research by management. DISA management did not validate the accrual percentage for Expense transactions in FY 2019.

Cause: DISA encountered challenges during its system conversion to DAI, which led to time and resource constraints. As a result, DISA has not properly implemented internal controls to review, validate, and update the accrual percentage calculation that generates Expense transactions recorded in FY 2019.

Effect: Without an analysis to validate significant assumptions used in accrual estimates, DISA may be basing its liabilities on information that is not in line with current business practices and trends. Additionally, there may be cases where certain contracts execute at a percentage less than the current accrual percentage of 97%. Basing an accounting estimate on unvalidated assumptions may lead to misstatements in DISA's financial statements.

Recommendation: Kearney recommends that DISA perform the following:

1. Implement internal controls to validate its accrual methodology by analyzing actual spending data and trends from past experience.
2. Based on the analysis performed, annually update its accrual estimate assumptions to ensure that liability estimates are reasonably supported by past experience.

E. Expense Samples Not Supported

Background: DISA participates in activities that generate expense, and these transactions are reported on the Statement of Net Cost on DISA's September 30, 2019 financial statements. DISA's expenses are generated as part of the cost of providing information system services to trading partners, as well as Operational Expenses incurred by DISA. DISA's General Fund Expenses for the period ended September 30, 2019 totaled $2.6 billion.

As part of the procurement process, DISA receives invoices for services received from the vendor. The invoice type varies depending on whether the vendor is a governmental agency or a commercial vendor. In addition to the invoices, DISA receives an SF-1080, *Vouchers for Transfers Between Appropriations and/or Funds*, detailing the amount of the transfer and appropriation, as well as citing the DISA General Fund LOA. The SF-1080 is used by DISA's service organization to process the transaction.

Condition: DISA was unable to provide complete and sufficient documentation for 758 (72% of the total) Expense samples to support transactions recorded in the Expense GL accounts. In many cases, DISA provided vouchers as supporting documentation, such as an SF-1080. However, these vouchers do not contain sufficient details to confirm the validity and accuracy of the transaction, such as a detailed description and the date the services were received.

Cause: Although DISA has established processes to support the financial statement audit and provide responses to audit requests, the Agency was unable to sufficiently support Expense transactions. Sufficient documentation was not readily available in a complete and consistent manner. DISA officials indicated that its transition to a new GL accounting system during FY 2019 impacted its ability to support the audit. Further, because of the previously identified scope limitations over DISA's FBWT account and their impact on DISA's audit opinion, DISA officials made a cost-benefit decision to not exhaust further resources on gathering the missing documentation to support its FY 2019 expense transactions.

Effect: Due to the lack of readily available invoice and billing documentation for DISA's General Fund Expense transactions, the Agency is unable to support the validity and accuracy of DISA's Gross Costs line on the Statement of Net Cost.

Recommendations: Kearney recommends that DISA perform the following:

1. Strengthen its process to ensure that source documentation for its financial transactions is readily available in a complete and consistent manner.

IV. Budgetary Resources *(Repeat Condition)*

Deficiencies in four related areas, in aggregate, define this material weakness:

A. Invalid Unfilled Customer Orders
B. Invalid Undelivered Obligations
C. Untimely Undelivered Order Transactions
D. Inaccurate Recoveries of Prior-Year Unpaid Obligations.

A. Invalid Unfilled Customer Orders

Background: *Unfilled Customer Orders (UCO) Without Advance*, USSGL Account 422100, represent orders for goods and/or services to be furnished for other Federal Government agencies and for the public. Federal agencies record UCOs Without Advance when they enter into an agreement, such as a MIPR, contract, or sales order, to provide goods and/or services when a customer cash advance is not received. These orders provide obligational budgetary authority for reimbursable programs. Agencies should maintain policies and procedures to ensure that UCOs represent valid future billings and collections.

DISA's General Fund reported approximately $213 million in UCOs Without Advance on its June 30, 2019 trial balance. The account balance is supported by a subledger ledger that details information such as the fund, document number, order amount, and transaction date, among other unique identifying details for each UCO balance.

Condition: DISA reported 30 invalid UCOs, totaling $3.8 million, on its June 30, 2019 trial balance. These were determined to be invalid due to expired period of performance, expired fund availability, and lack of recent activity.

Cause: DISA did not have effective control procedures to ensure that invalid UCOs were identified by funds holders and liquidated in a timely manner. DoD FMR Volume 3, Chapter 8, Section 081606 requires that funds holders assess the validity of the open balances by determining whether or not future work will be conducted on a contract to assess validity. However, not all dormant balances for physically completed contracts were identified and liquidated as of June 30, 2019. In previous years, DISA 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 contract closeout processing by DISA's Procurement Services Directorate (PSD), and delays in Defense Contract Audit Agency (DCAA) audits. DISA officials indicated that they were reluctant to liquidate individual amounts in DISA's detailed accounting records until these steps have been completed. However, DISA did not have a process in place to estimate invalid UCOs in this status in order to record a year-end adjustment for financial reporting purposes.

Effect: Invalid UCOs resulted in inaccurate reporting by DISA and a known overstatement of $3.8 million as of June 30, 2019 on the Spending Authority from Offsetting Collections line on the FY 2019 Statement of Budgetary Resources. When extrapolated against the universe of transactions, the projected overstatement is $34 million.

Recommendation: Kearney recommends that DISA perform the following:

1. Strengthen existing policies to ensure that funds holders are adequately assessing the validity of the open UCO balances and liquidate invalid UCOs when possible.
2. Implement policies, or strengthen existing policies, which require PSD to process contract actions timely once all goods and services have been provided to the customer.
3. To the extent that invalid UCOs cannot be liquidated based on contractual or administrative matters, develop and implement a process to estimate invalid UCOs to determine whether a temporary adjustment is required for year-end financial reporting purposes.

B. Invalid Undelivered Obligations

Background: UDOs represent the amount of goods and/or services ordered which 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 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.

DISA's General Fund reported more than $2.4 billion in UDOs on its September 30, 2019 trial balance. The account balance is supported by a subledger that details information such as the document number, obligated amount, undelivered amount, and transaction date, among other unique identifying details for each UDO balance.

Condition: DISA reported 85 invalid General Fund UDOs, totaling $59 million, on its September 30, 2019 trial balance. These were determined to be invalid due to expired period of performance, expired fund availability, and lack of recent activity.

Cause: DISA did not have effective control procedures to ensure that invalid UDOs were identified by funds holders and deobligated in a timely manner. DoD FMR Volume 3, Chapter 8, Section 081606 requires that funds holders assess the validity of the open balances by determining whether or not future work will be conducted on a contract to assess validity. However, not all dormant balances for physically completed contracts were identified and deobligated as of September 30, 2019. In previous years, DISA 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 contract closeout processing by DISA's PSD, and delays in DCAA audits. DISA officials indicated that they were reluctant to deobligate individual amounts in DISA's detailed accounting records until these steps have been completed. Although DISA had developed a contract closeout accrual to accrue estimated deliveries during contract closeout, the Agency did not have a process in place to estimate invalid UDOs in this status in order to record a year-end adjustment for financial reporting purposes.

Effect: Invalid UDOs led to inaccurate reporting by DISA and a known overstatement of $59 million as of September 30, 2019 on the New Obligations and Upward Adjustments line on the FY 2019 Statement of Budgetary Resources.

Recommendation: Kearney recommends that DISA perform the following:

1. Strengthen existing policies to ensure that funds holders are adequately assessing the validity of the open UDO balances and deobligate invalid UDOs when possible.
2. Implement policies, or strengthen existing policies, which require PSD to process contract actions timely once all goods and services have been provided to the customer.
3. To the extent that invalid UDOs cannot be deobligated based on contractual or administrative matters, develop and implement a process to estimate invalid UDOs to determine whether a temporary adjustment is required for year-end financial reporting purposes to supplement the contract closeout accrual.

C. Untimely Undelivered Order Transactions

Background: An obligation is a legally binding agreement that will result in outlays, immediately or in the future. When an agency places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the Government to make payments to the public or from one Government account to another, it incurs an obligation. Agencies should maintain policies, procedures, and information systems to ensure that obligations represent required Federal outlays, comply with laws and regulations, and are appropriately approved.

DISA's General Fund reported approximately $2.4 billion in UDOs on its September 30, 2019 trial balance.

Condition: DISA recorded 49 obligations that were not entered into the financial management system within 10 days of the execution of the obligating document.

Cause: DISA did not have effective transaction-level control procedures to ensure obligations were recorded in the financial management system in a timely manner in accordance with DoD FMR, Volume 3, Chapter 8, Section 080303. Further, DISA did not have effective agency-wide monitoring controls to ensure timely recording of contracting actions.

Effect: Obligations that are not recorded in a timely manner increase the risk that:

- Goods or services may be acquired and/or received prior to an authorized obligation certifying the availability of funds or prior to an authorized contract or purchase order being established. The process of authorizing the obligation and certifying funds availability ensures the completeness of the recorded obligation balances
- The Antideficiency Act could be violated. If obligations are not recorded prior to the acquisition of goods and/or services, an agency could obligate more funds than it was appropriated
- Payments may not be made in a timely manner in compliance with the Prompt Payment rule.

Recommendation: Kearney recommends that DISA perform the following:

1. Strengthen controls to ensure the timely creation, approval, and recording of obligations. Specifically, DISA should implement controls at the obligation level to ensure that obligations are recorded in a timely manner to support funds control.

D. Inaccurate Recoveries of Prior-Year Unpaid Obligations

Background: Recoveries of unpaid obligations consist of USSGL Account 487100, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*, and USSGL 497100, *Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries*. These accounts represent recoveries during the current FY resulting from downward adjustments to obligations or delivered orders originally recorded in a prior FY. Recovered budget authority is presented on Line 1051 of the Statement of Budgetary Resources, *Unobligated Balance from Prior Year Budget Authority, net*. DISA is responsible for developing policies and procedures to ensure that budgetary activity is accurately reported in accordance with USSGL guidelines.

DISA's General Fund reported $274 million in Recoveries, exclusively to USSGL 487100, on its September 30, 2019 trial balance. The account balance is supported by transaction-level detail that contains information such as document number, project number, and amount, among other identifying details.

Condition: DISA reported $194 million in *Downward Adjustments of Prior-Year Unpaid Undelivered Orders, Obligations – Recoveries* on its September 30, 2019 trial balance that were not actually recoveries of prior-year obligations. These transactions were adjustments to various data elements, such as document number or funding type, that were incorrectly posted as recoveries due to the way they were entered in DISA's accounting system.

In addition, DISA was not able to provide sufficient audit evidence to support $21 million of *Downward Adjustments of Prior-Year Unpaid Undelivered Orders, Obligations – Recoveries* on its September 30, 2019 trial balance.

Cause: DISA did not have effective control procedures to ensure that transactions recorded to USSGL 487100 were downward adjustments to prior-year obligations. Specifically, DISA recorded adjustments to obligations during FY 2019 to update errors in obligation characteristics, such as document number or funding type (i.e., direct or reimbursable), that occurred due to the conversion from the legacy financial system, WAAS, to DAI. These adjustments in DAI triggered system controls to post a *Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries* transaction, despite no accounting event taking place. The balance was then re-obligated with the correct obligation characteristics as USSGL 488100, *Upward Adjustments of Prior-Year Undelivered Orders – Obligations, Unpaid*.

Further, DISA was unable to produce contractual de-obligating documentation to support $21 million for USSGL Account 487100, *Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries.*

Effect: Statement of Budgetary Resources Lines 1051, *Unobligated balance from prior year budget authority, net (discretionary and mandatory)*, and 2190, *New obligations and upward adjustments (total)*, were misstated due to $194 million (known) and $21 million (potential) errors as of September 30, 2019.

Recommendation: Kearney recommends that DISA perform the following:

1. Implement policies to ensure that all transactions recorded to USSGL 487100 reference obligations recorded in a prior FY.
2. Perform a quarterly review of USSGL 487100 transactions to ensure that any transactions are produced by accounting events (i.e., contractual deobligation).

V. Information Technology (*Repeat Condition*)

Background: DISA operates in a complex information system environment to execute its mission and record transactions timely and accurately. In FY 2019, DISA retired WAAS, the legacy GL accounting system for DISA's General Fund, and began processing General Fund transactions in DAI, which is a budget, finance, and accounting system hosted by DISA, but owned and operated by a service organization. Service organization systems are systems that organizations other than DISA own and operate but still affect the agency's business processes and financial statements. In addition to DAI, DISA utilizes multiple other systems and subsystems provided by service organizations to support the majority of its financial operations, to include cash management, property management, payroll processing, and financial reporting. To achieve effective operation of service organization systems, service organizations require user entities (i.e., customers or users of the systems and services provided) to implement certain internal controls, referred to as complementary user entity controls (CUEC).

Because of the sensitive nature of DISA's information system environment, Kearney does not present specific details related to the systems, conditions, or criteria discussed within this material weakness. We provided those details separately to DISA management and relevant stakeholders through Notifications of Findings and Recommendations (NFR).

Condition: DISA has several deficiencies in the design and operating effectiveness of internal controls related to service organization systems, including DAI, supporting DISA's operations and mission. While no single noted control deficiency meets the level of a material weakness, in combination, these deficiencies elevate to a material weakness due to the pervasiveness of the weaknesses throughout the information system environment and DISA's reliance on these systems for financial reporting. Our audit disclosed deficiencies in the following areas:

- Insufficient evidence of monitoring service organizations
- Incomplete implementation of the CUECs
- Missing user access authorization forms for key financial systems
- Incomplete periodic access reviews for key financial systems
- Untimely removal of separated users for key financial systems.

Cause: The deficiencies are a result of multiple circumstances, including incomplete or inconsistent implementation of policies and procedures, ineffective quality control processes to ensure personnel for key information system controls followed documented procedures, and the significant amount of resources required to monitor service organizations and implement their CUECs.

Effect: Without robust controls throughout the information system environment, the risk of unauthorized access and information system changes increases, thereby increasing the risk to the systems and the confidentiality, integrity, and availability of the underlying data of those systems.

Recommendations: Kearney recommends that DISA perform the following:

1. Develop and document policies and procedures for reviewing the impact of each service organization's System and Organization Controls (SOC) report.
2. Perform a review of each service organization's SOC report.
3. Develop, update, and document policies and procedures for addressing CUECs, as identified within each service organization's SOC report.
4. Implement all CUECs.

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

To the Director, Defense Information Systems Agency, and the Inspector General of the Department of Defense

We were engaged to audit, in accordance with the 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. 19-03, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2019, and we have issued our report thereon dated January 21, 2020. 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.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of DISA, 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 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 DISA. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03 and which are described in the accompanying Schedule of Findings.

The results of our tests of compliance with FFMIA disclosed that DISA's financial management systems did not comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger (USSGL) at the transaction level, 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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COMPANY

DISA's Response to Findings

DISA's response to the findings identified in our engagement is described in a separate memorandum attached to this report in the Agency Financial Report. DISA's response was not subjected to the auditing procedures applied in our engagement to audit the financial statements; accordingly, we do not express an opinion on it.

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. 19-03 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
January 21, 2020

Schedule of Findings

Noncompliance and Other Matters

I. The Federal Financial Management Improvement Act of 1996 *(Repeat 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.

DISA'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 financial systems and reliable financial reporting.

FFMIA requires financial management system owners to implement and monitor Federal information system security controls to minimize the impact to the confidentiality, integrity, and availability of the systems and data. The primary means for Federal entities to provide these controls is the implementation and monitoring of controls defined in National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. DISA deviated from recommended controls defined in NIST SP 800-53, Rev. 4, as discussed in Section V, *Information Technology*, in our *Report on Internal Control over Financial Reporting*. These deviations related to access controls and monitoring of third-party service providers, and they represent instances of noncompliance with information security requirements.

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 a scope limitation and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DISA's financial statements. Because of the significance of this scope limitation, we were unable to determine whether DISA's financial statements contained material departures from GAAP.

United States Standard General Ledger at the Transaction Level

FFMIA requires that agency management systems record financial events by applying the USSGL guidance in the Treasury Financial Manual (TFM) at the transaction level. As described in the *Basis for Disclaimer of Opinion* section in the accompanying *Independent Auditor's Report*, we experienced a scope limitation and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DISA's financial statements. Because of the significance of this scope limitation, we were unable to execute all planned audit procedures, including tests for compliance with the USSGL at the transaction level.

II. The Federal Information Security Modernization Act of 2014 (*Repeat Condition)*

The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. NIST publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from NIST standards and guidelines represent departures from FISMA requirements. During our audit, we noted several deviations from NIST standards and guidelines that contributed to an overall material weakness related to information systems, as described in Section V, *Information Technology*, in our *Report on Internal Control over Financial Reporting*. These deviations represent DISA's noncompliance with FISMA. By not complying with FISMA, DISA's security controls may adversely affect the confidentiality, integrity, and availability of information and information systems. See Section V, *Information Technology*, in the accompanying *Report on Internal Control over Financial Reporting* for additional details.

III. The Federal Managers' Financial Integrity Act of 1982 (*Repeat 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.

As described in the *Basis for Disclaimer of Opinion* section in the accompanying *Independent Auditor's Report*, we experienced a scope limitation and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DISA's financial statements. This constitutes noncompliance with FMFIA, as DISA was unable to provide sufficient support for its financial transactions so that reliable financial reports could be prepared.

DISA 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* (the Green Book), as described by the material weaknesses in the *Report on Internal Control over Financial Reporting*.

DISA Management's Comments on Auditor's Report

DEFENSE INFORMATION SYSTEMS AGENCY
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Mr. David Zavada
Kearney & Company
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Mr. Zavada:

DISA acknowledges receipt of Kearney & Company's draft audit report for DISA's FY 2019 Working Capital Fund (WCF) financial statements.

We acknowledge the auditor-identified findings in the following key areas: 1) Fund Balance with Treasury, 2) Accounts Receivable/Accounts Payable, 3) Budgetary Resources, and 4) Information System Security Controls, each of which, in the aggregate, are considered material weaknesses.

DISA has already overcome many of the issues surrounding our transition into the new accounting system as noted by the auditors. Additionally, we have placed renewed focus on successful resolution of the remaining audit issues during the upcoming audit cycle.

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BARBARA C. CRAWFORD
Director, Accounting Operations and Compliance