Defense Information Systems Agency
Working Capital 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 Working Capital Fund (WCF), 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 fiscal year (FY) 2019 WCF Financial Statements, and a Performance and Financial Section which contains the auditor's signed report. DISA's FY 2019 WCF 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.

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 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.

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 Working Capital 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**

1. 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."

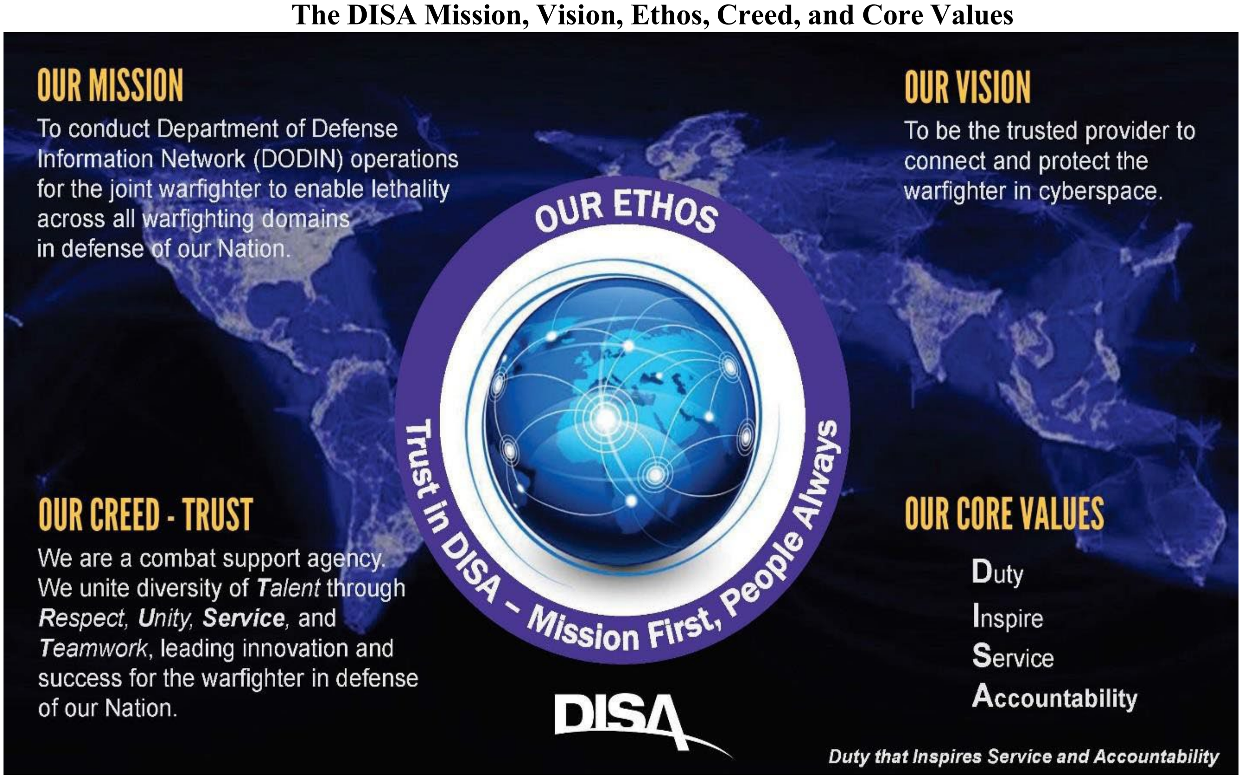
DISA serves the needs of the President, Vice President, Secretary of Defense, Joint Chiefs of Staff, COCOMs, and other DoD components during peace and war. In short, the DISA provides global net-centric solutions in the form of networks, computing infrastructure, and enterprise services to support information 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

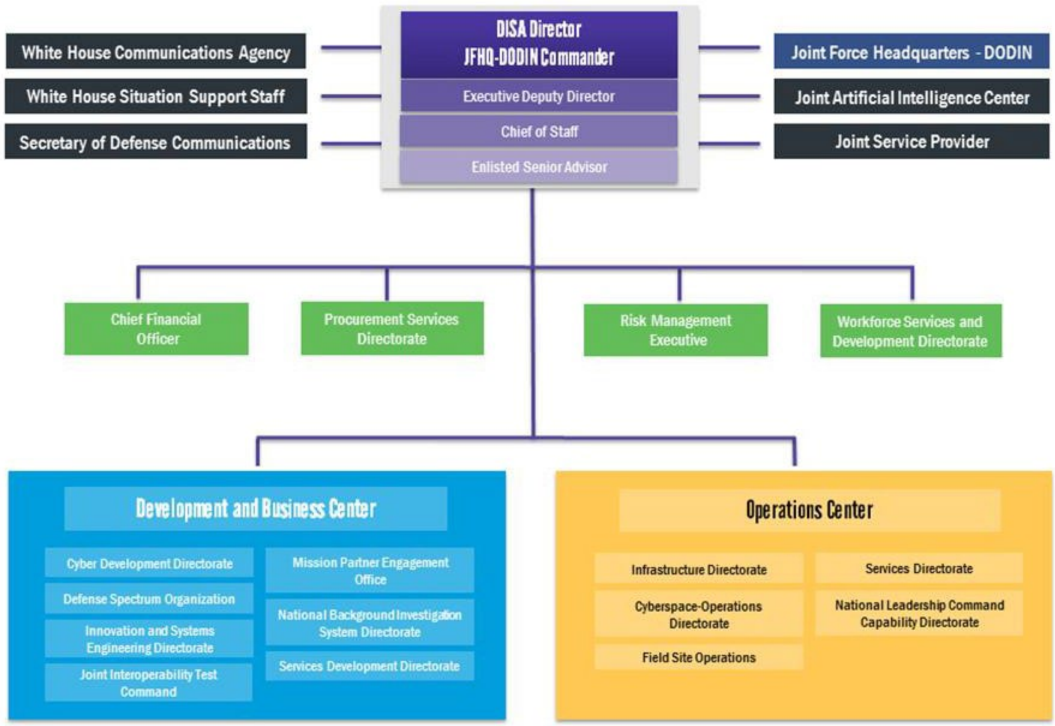
Defense (C3I) and technical products and services to DoD and military components. DISA's role in DoD information management continued to expand with implementation, in September 1992, of several Defense Management Report Decisions (DMRD), most notably DMRD 918.

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.

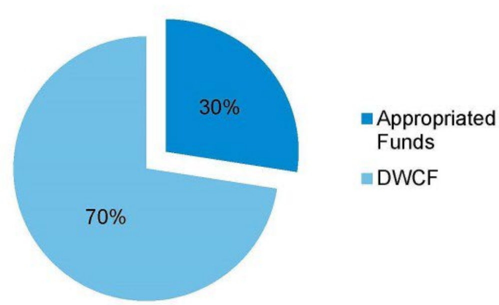
Resources
DISA is a combat support agency of the Department of Defense (DoD) with a 10.9 billion-dollar annual budget.

BUDGET

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

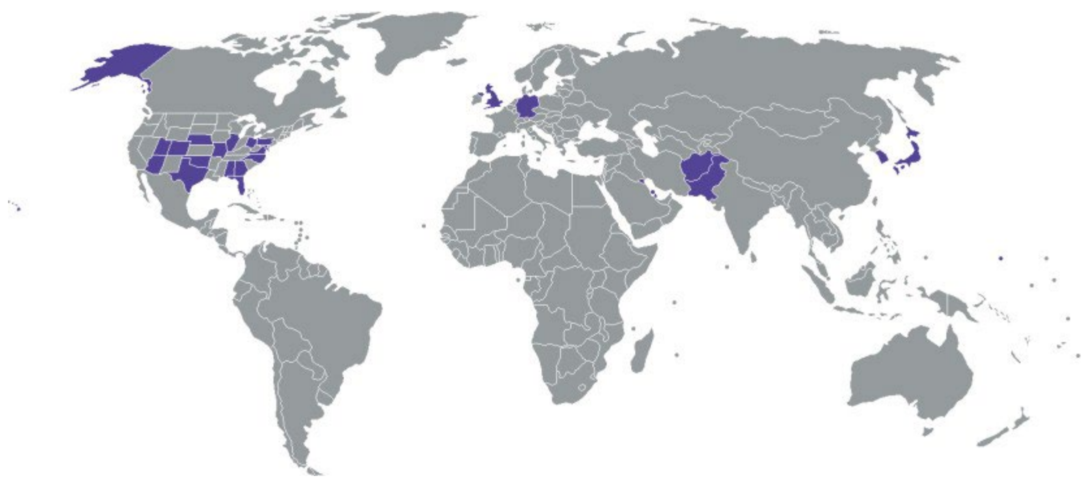
Defense Working Capital Fund (DWCF)
(Based on FY19 President's Budget)
Total DWCF: $7,684.3M

**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.



2. 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

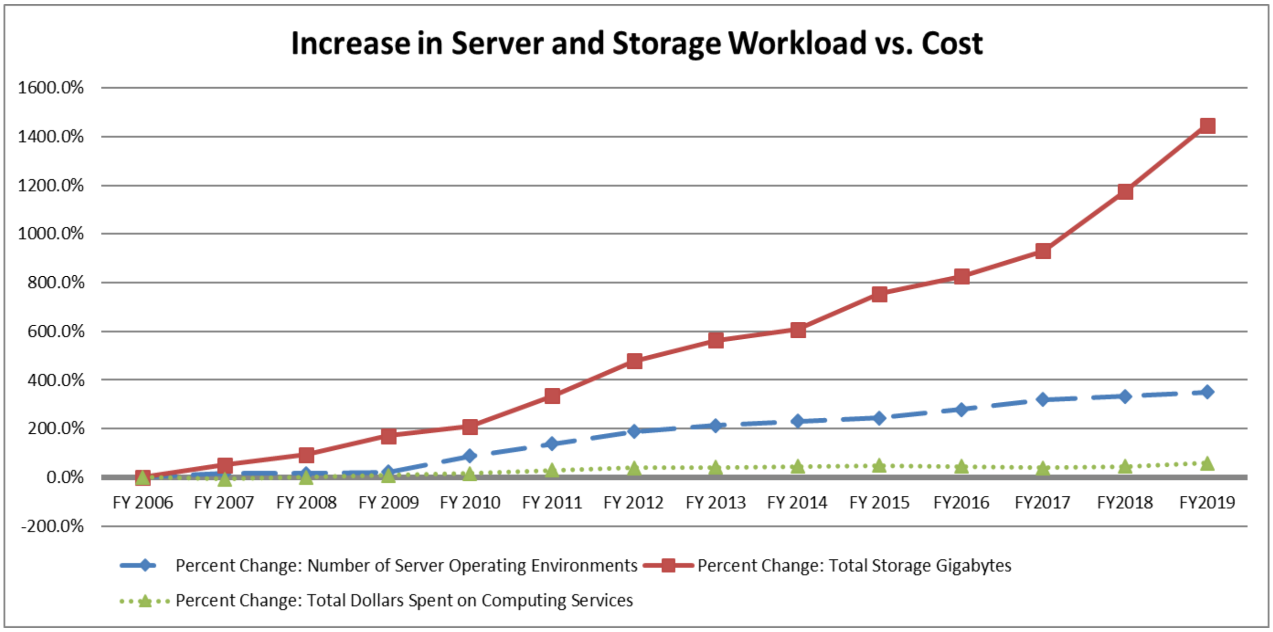
DISA's strategic plan framework outlines mutually reinforcing programs, projects, and initiatives that link the three goals to DISA's mission. To operate and defend, adopt, buy, and create solutions, and enable people and reform of the agency, ensures DISA conducts DoD Information Network (DoDIN) operations 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.

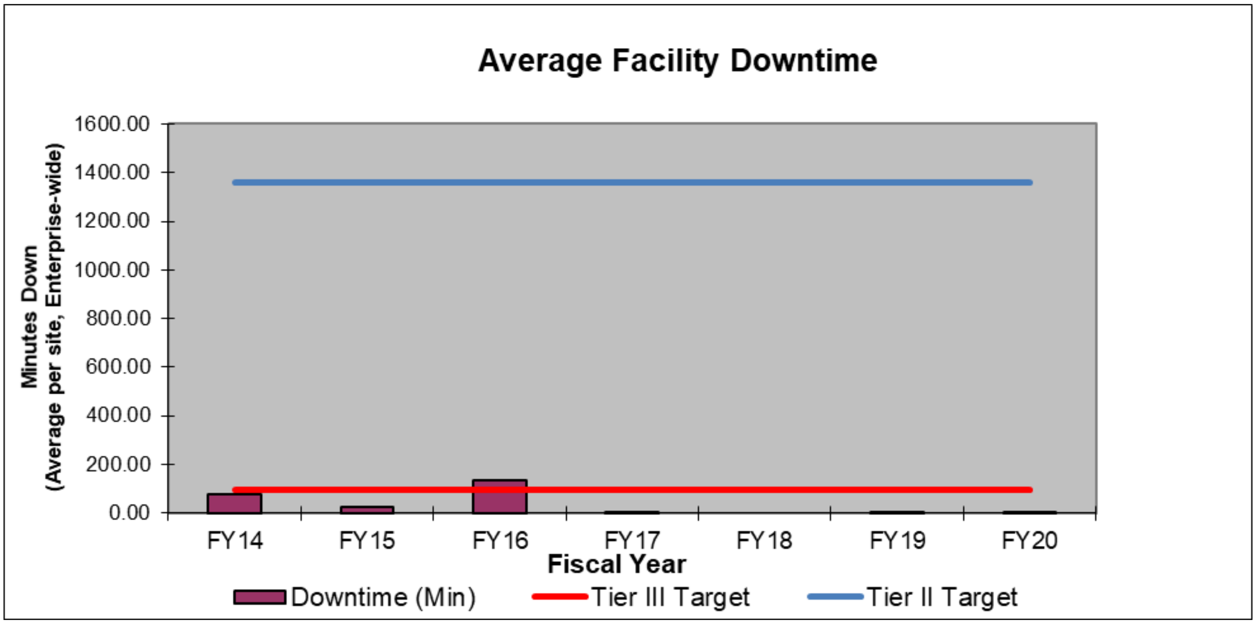
Computing Services Performance Measures

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

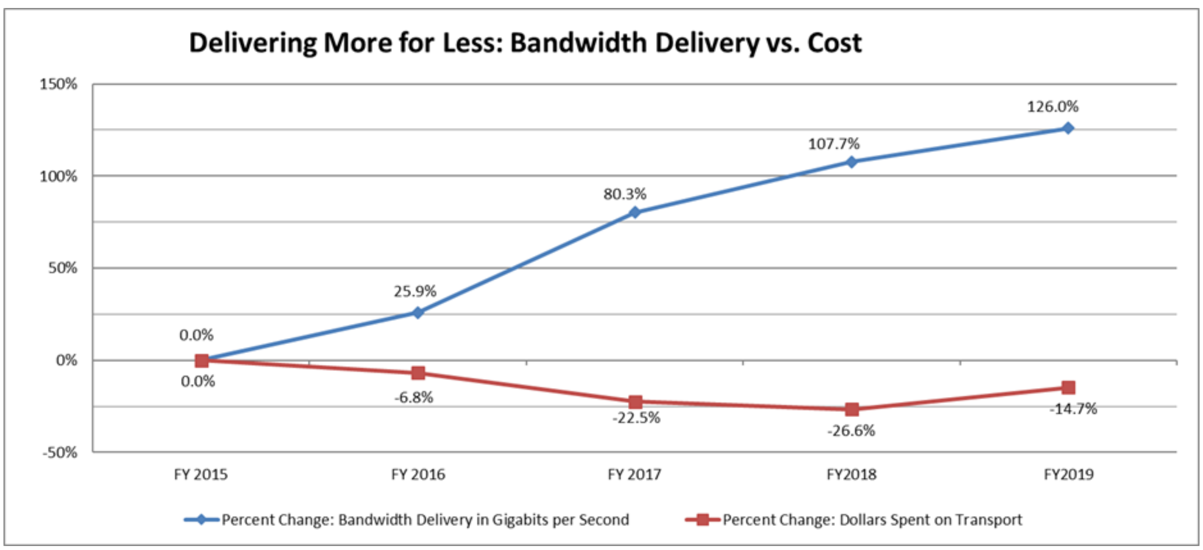


Capacity Service Contract Equipment Availability

	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 2019 Estimated Actual	FY 2020 Operational Goal*	FY 2021 Operational Goal*
Percent of total eligible contract dollars competed	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.

3. 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.

Defense Working Capital Fund Financial Highlights

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

Executive Summary – The DISA WCF reflects the results of budget execution that saw the fund decrease $543.4 million (56%) for a total of $435.8 million on its unobligated balance available, as compared to 4th Quarter, FY 2018.

- Obligations incurred increased by $639.6 million (8%), in comparison to the 4th Quarter of last year partially driven by DISN IS Cybersecurity programs, and a $50 million obligation for contracted support of the National Leadership Command Capabilities (NLCC) Center.

- The Consolidated Statement of Net Cost reflect a loss, through 4th Quarter, FY 2019 of $56.7 million and includes the non-recoverable depreciation expense for network equipment transferred into Telecommunication Services and Enterprise Acquisition Services (TSEAS) (PE55).

- Cash levels remained positive through the 4th Quarter, FY 2019 at 24.8 days of operating cash.

All general ledger subsidiary detail has been reconciled to the field level accounting system trial balances, and all journal vouchers posted to DDRS-B and DDRS-AFS have been reviewed, reconciled and approved by DISA to ensure that the DDRS-AFS trial balance is 100% supported by transaction detail.

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 $2.2 billion are comprised primarily of Fund Balance with Treasury ($552.5 million), intragovernmental accounts receivable ($866.8 million), and Property, Plant & Equipment (PP&E) ($804.8 million).

Fund Balance with Treasury - FYTD net cash flow from current year operations (collections less disbursements) reported to Treasury for FY 2019, along with the inception-to-date (ITD) balances are presented below:

Figure 1-Fund Balance with Treasury

(thousands)

DISA WCF	9/30/2019	9/30/2018	Inc/Dec	% Chg.
CS Beginning Balance	$ 263,013	$ 194,236	$ 68,776	35%
CS YTD	4,683	68,776	(64,094)	-93%
CS Total	267,695	263,013	4,683	2%
TS Beginning Balance	275,918	439,660	(163,742)	-37%
TS YTD	8,932	(163,742)	172,674	-105%
TS Total	284,850	275,918	8,932	2%
Total Beginning Balance	538,930	633,896	(94,966)	-15%
YTD	13,615	(94,966)	108,580	-114%
Total ITD Balance	$ 552,545	$ 538,930	$ 13,615	3%

- 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 WCF's portion of the TI97 .005 account balances reported by Department of Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level.

- The $552.5 million cash balance at September 30, 2019 is comprised of a $538.9 million current year beginning balance and a FYTD $13.6 million increase from current year operations (includes capital outlays).

Accounts Receivable, Net - Accounts Receivable increased $269 million (45%). The largest increase is within the TSEAS intragovernmental receivables. Increase is due to PE56 Enterprise Acquisition Services Other Reimbursable Orders for $420.3 million and is then offset by a decrease in PE55 Telecommunication Services, specifically Core Sustaining Activities for ($141.2 million). The table below compares current year to prior year intragovernmental and public receivable balances.

Figure 2-Accounts Receivable, Net

(thousands)

DISA WCF	9/30/2019	9/30/2018	Inc/Dec	% Chg.
CS				
Intragovernmental	$ 62,993	$ 70,963	$ (7,970)	-11%
Public	40	34	5	16%
TS				
Intragovernmental	923,478	637,577	285,901	45%
Public	6,540	1,015	5,525	545%
Component				
Intragovernmental	(119,658)	(105,242)	(14,416)	14%
Public	-	-	-	0%
Total				
Intragovernmental	866,812	603,297	263,515	44%
Public	6,580	1,049	5,531	527%
Total Accounts Receivable	$ 873,392	$ 604,347	$ 269,045	45%

General Property, Plant and Equipment (PP&E), Net – DISA WCF General PP&E consists primarily of equipment used by DISA organizations to deliver computing services to customers in the DISA Computing Ecosystem and telecommunication services over the DISN. General PP&E increased $48.3 million (6%) and includes capital assets funded by DISA WCF operations, capital assets supporting the infrastructure of the services offered by the WCF that are transferred in from the DISA GF without reimbursement, as well as current period depreciation expense on existing assets. The depreciation expense associated with these capital assets is non-recoverable.

General PP&E balances as of September 30, 2019 and 2018 are as follows:

Figure 3-General PP&E, Net

(thousands)

DISA WCF	9/30/2019	9/30/2018	Inc/Dec	% Chg.
CS	$ 199,401	$ 162,592	$ 36,808	23%
TSEAS	605,426	593,982	11,445	2%
Total	$ 804,827	$ 756,574	$ 48,253	6%

- DISA WCF developed an Enhanced Mobile Satellite Service (EMSS) DISA Feeder Link Terminal (DFLT) facility in Tobyhanna, PA valued at $1.2 million in support of mission requirements. This is the first facility that DISA WCF holds ownership.

Other Assets - Other Assets decreased $32.6 million (100%) within TSEAS as the result of amortization (drawdown) of prior year prepaid invoices and no new prepaid invoices recorded in FY 2019. The prepayments are liquidated as services were provided/benefit received.

Other Assets balances as of September 30, 2019 and 2018 are as follows:

Figure 4-Other Assets

(thousands)

DISA WCF	9/30/2019	9/30/2018	Inc/Dec	% Chg.
CS	$ -	-	$ -	0%
TSEAS	-	32,559	(32,559)	-100%
Total	$ -	$ 32,559	$ (32,559)	-100%

Liabilities

As of 30 September 2019, DISA WCF reported total liabilities of $983.3 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 $977.4 million in liabilities covered by budgetary resources comprised primarily of $889.4 million in accounts payable due to the public.

Figure 5-Total Liabilities Covered by Budgetary Resources

(thousands)

DISA WCF	9/30/2019	9/30/2018	Inc/Dec	% Chg.
CS	$ 162,969	$ 142,960	$ (20,008)	14%
TSEAS	934,102	703,801	230,301	33%
Component	(119,658)	(111,849)	(7,810)	7%
Total	$ 977,413	$ 734,913	$ 242,500	33%

- The largest portion of the balance is comprised of TSEAS (PE56) public IT contract accruals.
- From a customer funding perspective, the DISA General Fund and Army continue to provide the most customer funded contract requirements associated with the public accounts payable balance.

Consolidated Statement of Net Cost

The Statement of Net Cost presents the cost of operating DISA programs. The goal of the revolving fund is to break even over the long term as identified in the budget, thus driving toward an objective where a profit or loss is not a target over the long term, but rather nets zero. Net Cost of Operations decreased $4.6 million (8%) between fiscal years and includes non-recoverable depreciation expense totaling $51.2 million.

Figure 6- Net Cost of Operations

(thousands)

DISA WCF	9/30/2019	9/30/2018	Inc/Dec	% Chg.
CS	$ 33,763	$ (33,471)	$ 67,234	-201%
TSEAS	22,970	94,807	(71,837)	-76%
Consolidated	$ 56,733	$ 61,336	$ (4,604)	-8%

Gross Cost - Gross Cost totaling $7.4 billion increased $602.6 million (9%) from the prior year and reflects the full cost of operations to include recoverable and non-recoverable cost. Primary drivers contributing to the net increase in gross costs are highlighted in the following table:

Figure 7- Gross Cost

	(thousands) 9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
Total Gross Cost	$ 7,393,536	$ 6,790,939	$ 602,597	9%
Less: PE56 Cost	5,133,396	4,459,542	673,853	15%
Less: Non-Recoverable Depreciation	51,064	147,635	(96,571)	-65%
Total DISA WCF Operating Cost	2,209,076	2,183,761	25,314	1%
TSEAS (PE55)				
DISN-IS Joint Regional Security Stacks	98,901	-	98,901	100%
Network Operations Support (Note 1)	80,237	40,798	39,439	97%
Network Management Support	65,870	-	65,870	100%
OSS	-	139,458	(139,458)	-100%
OCO Circuits - General	-	51,028	(51,028)	-100%
Perimeter Defense	58,861	-	58,861	100%
Public Key Infrastructure (PKI)	38,390	-	38,390	100%
Customer Funded Projects	32,028	89,974	(57,946)	-64%
Endpoint Security Solutions	36,438	-	36,438	100%
Mobile Satellite Services (Note 2)	65,758	-	65,758	100%
CS (PE54)				
Rate Based Server Primary Storage	100,288	89,762	10,525	12%
Rate Based Global Serivces Desk (Note 3)	17,506	-	17,506	100%
Rate Based IBM Mainframe Processing	100,347	88,629	11,719	13%
Rate Based MilCloud 2.0 Migration Services	7,081	-	7,081	100%
Rate Based Server Basic	89,378	68,542	20,836	30%
Rate Based Secure Cloud Computing Architecture	11,404	3,707	7,698	208%
Reimbursable Pass Through Server HW/SW App Support	38,057	16,080	21,978	137%
Reimbursable Pass Through Server Reimbursable (w/o Comm)	36,692	50,592	(13,899)	-27%
Costs for Remaining Programs	$ 1,331,839	$ 1,545,193	$ (213,354)	-14%

Note 1- Previously bundled with Network Services Support in FY 2018

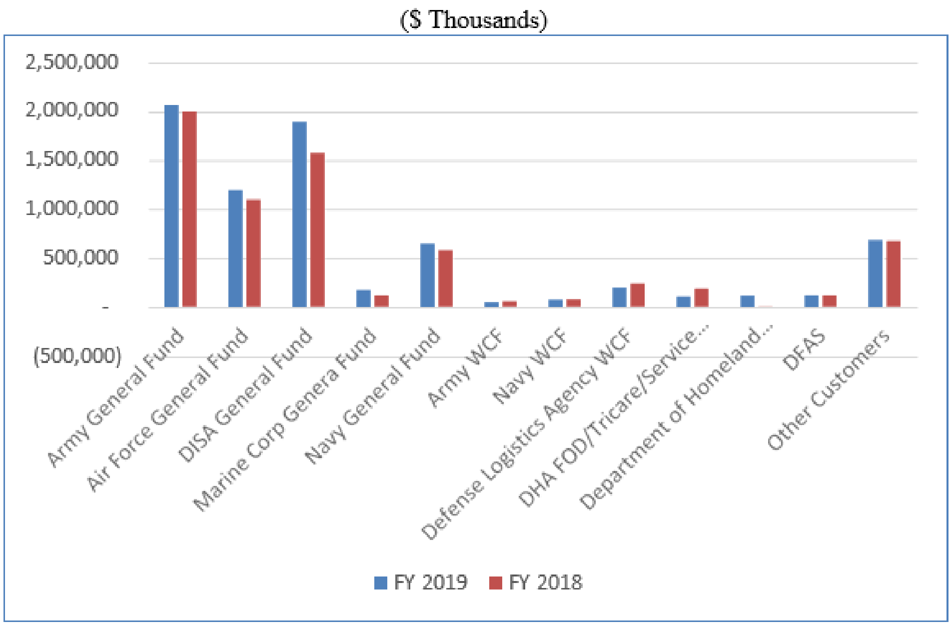
Note 2 - Previously bundled in Comm Satellite Services in FY 2018

Note 3 - New Service Offerings

Earned Revenue – Earned Revenue totaling $7.3 billion increased $607.2 million (9%) from the prior year.

- TSEAS (PE56) had an increase in revenue of $563.2 million primarily in IT Technology Contracts.
- The Army, Air Force and DISA General Fund continue to be DISA WCF's biggest customers.

The bar chart below reflects earned revenue per customer for FY 2019 and FY 2018.



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 WCF net position is affected by changes to its two components, Other Financing Sources (transfers in/out without reimbursement and imputed financing from costs absorbed by others), and Net Cost of Operations (Cumulative Results of Operations). 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.

- Transfers in/out without reimbursement decreased $153 million (71%) due to an adjustment for a change in the in-service date (depreciation start date) for a group of assets previously transferred in the DISA WCF.

- Imputed financing costs absorbed by others increased $237 thousand primarily due to an increase in imputed cost related to employee benefits.

- Net Cost of Operations decreased $4.6 million from FY 2018.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources provides information about how budgetary resources were made available and their status at the end of the period. It is the only financial statement derived entirely from the budgetary USSGL accounts, and is presented in a combined, not consolidated basis to remain consistent with the SF133, Report on Budget Execution and Budgetary Resources. The results and variances of key amounts reported in the SBR follows:

Figure 8- Statement of Budgetary Resources

(thousands)

	9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
CS				
Obligations Incurred	$ 1,075,898	$ 1,002,655	$ 73,244	7%
Unobligated Balances	134,959	148,831	(13,872)	-9%
Contract Authority	42,255	47,894	(5,639)	-12%
Unfilled Customer Orders	77,675	49,063	28,612	58%
TSEAS				
Obligations Incurred	7,175,026	6,608,625	566,401	9%
Unobligated Balances	688,714	830,356	(141,641)	-17%
Contract Authority	2,836	16,481	(13,645)	-83%
Unfilled Customer Orders	3,251,270	3,342,698	(91,429)	-3%
Consolidated				
Obligations Incurred	8,250,924	7,611,279	639,645	8%
Unobligated Balances	823,673	979,187	(155,514)	-16%
Contract Authority	45,091	64,375	(19,284)	-30%
Unfilled Customer Orders	$ 3,328,945	$ 3,391,761	$ (62,816)	-2%

New Obligations and Upward Adjustments (Obligations Incurred) - In the following chart Total Obligations Incurred FYTD totals are sourced from and agrees with the DDRS AFS statements for both TSEAS and CS. Program level detail are sourced from the FAMIS WCF for TSEAS and the Budget Execution Reporting Tool (BERT) for CS. The major drivers for Obligations Incurred for the DISA WCF are as follows:

Figure 9- Obligations Incurred

(thousands)

	9/30/2019	9/30/2018	Inc./(Dec.)	% Chg.
Total Obligations Incurred	$ 8,250,924	$ 7,611,279	$ 639,645	8%
Less: PE56 Obligations Incurred	$ 5,217,434	$ 4,691,857	$ 525,576	11%
Total DISA WCF Funded Obligations	$ 3,033,491	$ 2,919,422	$ 114,068	4%
TSEAS (PE55)				
Cybersecurity Activities	$ 316,016	$ 172,439	$ 143,576	83%
Joint Regional Security Stacks	$ (139)	$ 89,254	$ (89,393)	-100%
CS (PE54)				
Rate Based DECC Hosting	$ 29,116	$ -	$ 29,116	100%
Rate Based Global Service Desk	$ 16,133	$ -	$ 16,133	100%
Reimbursable Pass Through Server HW/SW Application Support	$ 30,975	$ 15,766	$ 15,209	96%
Rate Based Server Primary Storage	$ 41,569	$ 27,385	$ 14,184	52%
Reimbursable Pass Through Converged Solutions	$ 69,797	$ 59,938	$ 9,859	16%
Reimbursable Pass-Through GCDS Services Implementation	$ 9,709	$ 4,688	$ 5,022	107%
Rate Based GIG Content Delivery Service	$ 7,911	$ 32,864	$ (24,953)	-76%
All Other Programs Balances	$ 2,512,403	$ 2,517,089	$ (4,686)	0%

- PE56 September 30, 2018 balance includes a $50 million obligation for contracted telecom support of the General fund (GF) National Leadership Command and Capabilities (NLCC) center.
- Largest increase for TSEAS (PE55) was in the DISN Infrastructure Services business line, specifically the Cyber Security programs. This is offset by a decrease in DISN Reimbursable Services Joint Regional Security Stacks.
- Largest increases for CS (PE54) were in Rate Based DECC hosting, Global Service Desk and Server Primary Storage as well as in Reimbursable Pass Through for Server HW/SW Application Support, Converged Solutions and GCDS Services Implementation.

Unobligated Balance, End of Period **-** Reflects the remaining balance in the following accounts at the end of the period; Apportionments – Anticipated Resources (USSGL 4590), Allotments – Realized (USSGL 4610), and Commitments – Subject to Apportionment (USSGL 4700). The Unobligated Balance at the end of September 30, 2019 decreased $155.5 million between fiscal years, primarily within the (PE55) Bandwidth Management, Cybersecurity, Operational Support Services and Joint Regional Security Stacks programs, as well as the decrease in (PE56) commitments within the Other Reimbursable Orders program.

Contract Authority **-** Balances for approved capital purchases decreased $19.3 million between fiscal years. The decrease within PE55/56 is in ADPE & Telecommunications Equipment, specifically for Enhanced Mobile Satellite Services (EMSS); as well as in the Development and Business Center and Capital Assets.

Unfilled Customer Orders **-** Decreased $62.8 million between fiscal years; primarily due to the decrease in the amount of customer orders carried over in FY 2019 compared to FY 2018. The decrease is mainly in PE56 Other Reimbursables and offset by increases in PE56 Encore Contract, Telecommunication Reimbursable, PE55 DISN Reimbursable and Customer Funded Projects.

4. 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. 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. These 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
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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 Information 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-14-704O, "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 of 30 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 information on how DISA conducted this assessment. 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" that the internal controls over the financial systems are in compliance with the FMFIA, 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 WCF financial related system implementations have been planned and designed within the framework of the Business Enterprise Architecture (BEA) established within the Department of Defense, 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.

5. 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 multiprotocol label switching (MPLS) technology;

- 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
Working Capital Fund
Principal Statements
4th Quarter Fiscal Year 2019, ending September 30, 2019

Department of Defense
Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency
CONSOLIDATED BALANCE SHEET
As of September 30, 2019 and 2018
($ in Thousands)

	2019	2018
Intragovernmental assets:		
Fund Balance with Treasury (Note 3)	$ 552,545	$ 538,931
Accounts receivable, Net (Note 6)	866,812	603,297
Total Intragovernmental Assets	1,419,357	1,142,228
Accounts receivable, net (Note 6)	6,580	1,049
General property, plant and equipment, net (Note 9)	804,827	756,574
Other Assets (Note 10)	-	32,559
Total Assets	$ 2,230,764	$ 1,932,410
Liabilities (Note 11)		
Intragovernmental liabilities:		
Accounts payable	$ 45,245	$ 35,630
Other Liabilities (Notes 15 and 17)	3,487	3,390
Total intragovernmental liabilities	48,732	39,020
Accounts payable	889,395	658,951
Military Retirement and other Federal Employment Benefits	4,773	5,103
Other Liabilities (Notes 15 and 17)	40,406	40,365
Total liabilities	983,306	743,439
Commitments and contingencies (Note 9)		
Net Position:		
Cumulative Results from Operations (Other Funds)	1,247,458	1,188,971
Total net position	1,247,458	1,188,971
Total liabilities and net position	$ 2,230,764	$ 1,932,410

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

Department of Defense
Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2019 and 2018
($ in Thousands)

Statement of Net Cost

	2019	2018
Gross Program Costs		
Gross Costs	$ 7,393,535	$ 6,790,939
Less: Earned Revenue	(7,336,803)	(6,729,603)
Net Cost before Losses/(Gains) from Actuarial Assumption for Military Retirement Benefits	56,732	61,336
Net program Costs Including Assumption Changes	56,732	61,336
Net Cost of Operations	56,732	61,336

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

Department of Defense
Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2019 and 2018
($ in Thousands)

CUMULATIVE RESULTS OF OPERATIONS	**2019**	**2018**
Beginning Balance	$ 1,188,971	$ 982,322
Non-exchange revenue	1	-
Transfers-in/out without reimbursement	62,320	215,323
Imputed financing	52,900	52,663
Other	(2)	(1)
Total Financing Sources	115,219	267,985
Net Cost of Operations	56,732	61,336
Net Change in Cumulative Results of Operations	58,487	206,649
Total Cumulative Results of Operation	1,247,458	1,188,971
Net Position	$ 1,247,458	$ 1,188,971

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2019 and 2018
($ in Thousands)

	2019	2018
Budgetary Resources		
Unobligated balance from prior year budget authority, Net (Note 12)	$ 981,398	$ 1,126,114
Contract Authority (discretionary and mandatory)	45,091	64,375
Spending Authority from offsetting collections (discretionary and mandatory)	8,048,108	7,399,977
Total Budgetary Resources	9,074,597	8,590,466
Status of Budgetary Resources		
New obligations and upward adjustments (total)	8,250,924	7,611,279
Unobligated balance, end of year		
Apportioned, unexpired accounts	435,768	979,187
Unapportioned, unexpired accounts	387,905	-
Unexpired unobligated balance, end of year	823,673	979,187
Unobligated balance, end of year (total)	823,673	979,187
Total Budgetary Resources	9,074,597	8,590,466
Outlays, Net		
Outlays, net (total) (discretionary and mandatory) (Note 13)	(13,615)	94,966
Agency Outlays, net (discretionary and mandatory)	$ (13,615)	$ 94,966

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

Defense Information Systems Agency
Working Capital Fund

Notes to the Principal Statements

4th Quarter Fiscal Year 2019, ending September 30, 2019

DEFENSE INFORMATION SYSTEMS AGENCY
WORKING CAPITAL FUND

Notes to the Principal Statements
4th Quarter Fiscal Year 2019, ending September 30, 2019

Note 1. Summary of Significant Accounting Policies

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 Joint Force Headquarters-DoD Information Network (JFHQ-DoDIN) organization on January 15, 2015, DISA 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 working capital fund (WCF) consists of two main components. The first component includes two lines of service: telecommunication services and enterprise acquisition services (TSEAS). The second component includes computing services (CS). The DISA WCF is a revolving fund established by law to finance a continuing cycle of operations for the information services activity with receipts derived from such operations. The DISA GF is a separate reporting entity and not included herein.

The DISA continues to optimize mission capabilities and efficiencies through multiple means including the transfer of specific mission functions to the DISA WCF.

B. Mission of the 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.

C. Basis of Presentation

The accompanying financial statements and footnotes have been prepared to report the financial position and results of operations of the DISA WCF, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of 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 (FASAB), Office of Management and Budget (OMB) Circular A-136 "Financial Reporting Requirements", and DoD Financial Management Regulation (FMR). The American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 91, Federal GAAP Hierarchy, established a hierarchy of GAAP for federal financial statements, which recognizes the FASAB as the standard setting body. The accompanying financial statements account for all resources for which the DISA WCF is responsible unless otherwise noted.

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

D. Basis of Accounting

The DISA WCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DISA WCF's 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, and accounts payable.

The DISA WCF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis that is the summation of the Components less the Eliminations. The Statement of Budgetary Resources is presented on a combined basis that 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 federal funds.

DISA's continued effort towards full compliance with U.S. GAAP is encumbered by various systems limitations and the sensitive nature of certain 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.

E. Accounting for Intra-Entity, Intragovernmental, and Intergovernmental Activities

The preparation of financial statements in accordance with U.S. GAAP requires special treatment of revenues earned and costs incurred within the DISA WCF reporting entity. These "intra-entity" transactions between programs and suborganizations within the DISA WCF are recorded then eliminated as part of the financial statement consolidation and preparation process to prevent overstatement of business with itself. Prior to consolidating, TSEAS balances are reconciled to validated CS balances with any resulting adjustments made to the appropriate balances based on the most current supporting documentation to complete the elimination process. All DISA intra-WCF balances have been eliminated in the accompanying consolidated balance sheet and associated statements.

The Treasury Financial Manual Part 2 – Chapter 4700, Appendix 10, "Agency Reporting Requirements for the Financial Report of the United States Government, Intragovernmental Transaction (IGT) Guide" provides guidance for reporting and reconciling intragovernmental balances.

The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The DISA WCF employs a trading partner reconciliation process throughout the year to validate DISA WCF buyer-side and seller-side balances and collaborates with its major DoD partners to identify and resolve material differences. The DISA WCF also reconciles their 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). No adjustments are made for tier one agencies.

Imputed financing represents the cost paid on behalf of the DISA WCF by another federal entity without reimbursement. In accordance with SFFAS 55 (which rescinded SFFAS 4, SFFAS 30, an Interpretation of Federal Financial Accounting Standards (Interpretation 6), as a "business-type activity" the DISA WCF recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act; (3) losses in litigation proceedings; and (4) real property owned by other federal entities but used/occupied by DISA WCF without reimbursement.

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 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.

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

F. Non-Entity Assets

Nonentity assets are assets for which the DISA WCF maintains stewardship accountability and reporting responsibility but are not available for DISA WCF normal operations. The DISA WCF 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.*

G. Fund Balance with Treasury

The DISA WCF's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS) process the majority of DISA WCF'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 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.

Treasury and trial balance amounts include inception to date balances and are used for Treasury baselines and reconciliations. Beginning in fiscal year FY 2005, transaction level detail reconciliations were automated through the DISA Cash Management System (DCMS). The DCMS functionality and capability was incorporated into, and continues for use in the new DISA WCF accounting system. Methodology incorporates comparison of Treasury and trial balance transactions to reconcile, identify, and explain the differences between account balances. The DoD policy is to allocate and apply supported differences (undistributed disbursements and collections) to reduce accounts payable and receivable accordingly. Differences, or reconciling items, may be caused by the timing of transactions, an invalid line of accounting, or insufficient detail.

The DISA WCF balance is reconciled monthly to the amounts reported in the Cash Management Report (CMR), which represents the DISA WCF portion of the DWCF balance reported by Department of Treasury. The reconciliation incorporates a baseline reconciliation that was performed in FY 2005. In that baseline reconciliation of activity that dated back to the inception of the revolving fund in FY 1994, DISA reconciled balances where transaction detail was not available from legacy accounting systems that had been purged during migration to replacement accounting systems. Therefore, alternative reconciliation methods were performed to reconcile amounts reported by Treasury in those fiscal years to official accounting reports. Baseline adjustments were recorded to establish beginning balances that reconciled to the amounts reported by Department of Treasury. Since FY 2005, FBWT detail has been reconciled to amounts reported by Treasury, as identified in the CMR, at the transaction level on a monthly basis and no reconciling items that predate the baseline reconciliation have surfaced.

The U.S. Treasury maintains and reports the DWCF fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, including DISA WCF, are reported at the TI 97 DWCF appropriation sub-numbered level, an aggregate level at which Treasury does not identify separate Defense Agencies.

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

H. Cash and Other Monetary Assets

The DISA WCF does not maintain or report cash resources (coin, paper currency, negotiable instruments, or amounts held for deposit in banks or other financial institutions).

I. Investments in U.S. Treasury Securities

The DISA WCF does not invest in or report investments in U.S Treasury Securities.

J. Accounts Receivable

Accounts receivable from other federal entities or the public include earned 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 inherently collectible. Intragovernmental debt within the DoD is resolved in accordance with the DoD FMR Volume 4, Chapter 3, Paragraph 030506.A, and for Intragovernmental debt outside of the DoD paragraph 030506.B. 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.

K. Direct Loans and Loan Guarantees

The DISA WCF neither provides, holds nor reports any direct loans or loan guarantees.

L. Inventories and Related Property

The DISA WCF does not maintain or report any inventories or related property.

M. General Property, Plant and Equipment

The DISA WCF 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 WCF 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 two or more years. The DISA WCF PP&E capitalization threshold is $250 thousand for 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). 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 three to 25 years.

The DISA WCF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. Leasehold improvements are amortized over the lesser of their useful life, generally five years, or the unexpired lease term.

In the prior fiscal year, for a subset of a heterogeneous set of assets that did not lend themselves to a single activation date, depreciation was calculated using a composite method mid-year type approach to commencing depreciation expense for the assets because at the time it provided the most systematic and rational approach to applying an asset activation date. The date chosen was 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 WCF has now developed the capability for determining a more precise asset activation date using the month available for service method for these 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*.

The DISA WCF provides government property to contractors to complete contract work and the contractors are responsible for the control and accountability of these. The DISA WCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds DoD capitalization threshold, it is reported on DISA WCF's balance sheet in accordance with U.S. GAAP. There are no restrictions on the use or convertibility of DISA WCF's property and equipment, and all values are based on acquisition cost.

N. Advances, Prepayments, and Other Assets

The DISA WCF's other assets are primarily comprised of advances and prepayments. However, other assets may include military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on DISA WCF's balance sheet.

Payments made in advance of the receipt of goods and services are reported as an asset on the balance sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The DISA WCF has implemented this policy.

For additional information, see Note 10 *Other Assets.*

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 WCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it.

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 leases entered into by DISA WCF are the largest component of operating leases and are based on costs obtained from existing leases. Payments for operating leases are expensed over the lease term as they become payable.

For additional information, see Note 16 *Leases.*

P. Liabilities

The DISA WCF's 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*.

Q. Environmental and Disposal Liabilities

The DISA WCF has not incurred any environmental and disposal liabilities.

R. Other Liabilities

The DISA WCF other liabilities includes:

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.

Custodial Liabilities represents liabilities for collections reported as nonexchange revenues where the Department is acting on behalf of another federal entity.

Other Liabilities primarily consists of unemployment compensation liabilities.

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

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 WCF 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 WCF'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 WCF 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 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*.

T. Military Retirement and Other Federal Employment Benefits

DISA WCF does not administer pensions, Other Retirement Benefits (ORB), or Other Post-Employment Benefits (OPEB) and does not report gains or losses on Retirement Benefits.

The DISA WCF 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.*

U. Revenues and Other Financing Sources

The DISA WCF receives appropriations and funding as GF, and WCF (revolving funds). The DISA WCF uses these appropriations and funds to execute its missions and subsequently report on resource usage.

The DISA WCF received funding to establish an initial corpus through an appropriation or transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The DISA WCF fulfills orders for goods and services funded by, and sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

The DISA WCF net position consists of cumulative results of operations. Cumulative results of operations represent the net difference between gross costs and losses and financing sources (including appropriations, earned revenue, and gains), since inception. Cumulative results of operations also include donations and transfers-in/out of assets that were not reimbursed. For additional information, see Note 20 *Disclosures Related to the Changes in Net Position.*

In accordance with DoD FMR Volume 11B, Chapter 11, Paragraph 110202.G, DISA WCF recognizes exchange revenue using the service-type revenue recognition policy. Under this method, revenue is considered earned and recognized, along with associated costs, at the time the service is rendered or performed, and not less frequently than monthly. These exchange revenues reduce the cost of operations. DISA WCF pricing policy for reimbursable agreements is to recover full cost and should result in no profit or loss (breakeven) within planned timeframes based on budget and planning projections.

In accordance with SFFAS Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," the DISA WCF recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. Typically, the DISA WCF nonexchange revenue is comprised of immaterial amounts of public interest receivable, and accumulated penalties and administrative fees as reported in the Monthly Debt Management Report Contract Debt System.

V. Recognition of Expenses

In accordance with DoD FMR Volume 4, Chapter 17, Paragraph 170401, DISA WCF commonly reports expenses at their gross amount at the time that the expense is incurred. Expenses are recognized in the period that services are rendered, not when invoices are received. Estimates are made for major items such as payroll expenses and accounts payable

W. Treaties for Use of Foreign Bases

DISA WCF is not a party to Treaties for Use of Foreign Bases.

X. Use Of Estimates

The DISA WCF management makes assumptions and reasonable estimates in the preparations of the financial statements based on current conditions that may affect the reported amounts. Actual results could differ from the estimated amounts. Significant estimates include such items as year-end accruals of accounts payable for payroll expenses and contract expenses (federal and nonfederal), and actuarial liabilities related to workers' compensation. Payroll estimates pertain to the number of remaining workdays in the current period for which actual payroll expenses have not been received from the Defense Civilian Payroll System. The estimate is based on the cost per day using the past two pay period actual expenses available multiplied by the number of days remaining in the period. Contractual estimates pertain to the value of services and/or goods received but not invoiced. The estimates are based on the period of performance and values identified in the contract and/or historical data and actual or estimated usage. Actual results may differ from those estimates, therefore estimates are adjusted (trued-up) to reflect actuals during the period they become available.

Y. Parent-Child Reporting

The DISA WCF is not a party to any allocation transfers with other federal entities as a transferring (parent) or receiving (child) entity.

Z. Transactions with Foreign Governments and International Organizations

The DISA WCF does not have transactions with Foreign Governments and International Organizations.

AA. Fiduciary Activities

DISA WCF does not have Fiduciary Activities.

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.

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.

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. The DISA WCF has complied with this requirement.

Note 2. Nonentity Assets

Nonentity assets are assets for which the DISA WCF maintains stewardship accountability and reporting responsibility but are not available for DISA WCF normal operations.

The DISA WCF nonentity assets are comprised of immaterial amounts (rounded to zero $000) of accumulated interest receivable, and accumulated penalties and administrative fees receivable as reported in the Monthly Debt Management Report Contract Debt System. The DFAS initiates collection actions and transfers collected funds to the U.S. Treasury after receipt of payment.

Figure 10-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		1		0
C. Other Assets		-		-
D. Total Non-Federal Assets	$	1	$	0
3. Total Non-Entity Assets	$	1	$	0
4. Total Entity Assets	$	2,230,763	$	1,932,410
5. Total Assets	$	2,230,764	$	1,932,410

Note 3. Fund Balance with Treasury

Status of Fund Balance with Treasury

The Treasury records cash receipts and disbursements on the DISA WCF's behalf and are available only for the purposes for which the funds were appropriated. The DISA WCF's fund balance with treasury consists of revolving funds provided from the initial cash corpus, supplemental appropriations, and revolving fund operations.

The Status of 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.

The Unobligated Balance Available amount of $435.8 million represents the cumulative amount of budgetary authority that has been set aside to cover future obligations and is not restricted for future use. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. Obligated Balance not yet Disbursed in the amount of $4.1 billion represents funds obligated for goods and services but not paid.

The Non-FBWT Budgetary Accounts in the amount of $4.4 billion reduces the Status of FBWT and is primarily comprised of unfilled customer orders without advance from customers in the amount of $3.3 billion.

Figure 11-Status of Fund Balance with Treasury

(thousands)

		2019		2018
1. Unobligated Balance:				
A. Available	$	435,768	$	979,187
B. Unavailable		387,905		0
Total Unobligated Balance	$	823,673	$	979,187
2. Obligated Balance not yet Disbursed	$	4,140,962	$	3,796,703
4. Non-FBWT Budgetary Accounts:				
A. Investments - Treasury Securities	$	-	$	-
B. Unfilled Customer Orders without Advance		(3,328,946)		(3,391,760)
C. Contract Authority		(96,709)		(136,659)
D. Borrowing Authority		-		-
E. Receivables and Other		(986,435)		(708,540)
Total Non-FBWT Budgetary Accounts	$	(4,412,090)	$	(4,236,959)
5. Total FBWT	$	552,545	$	538,931

Note 6. Accounts Receivable, Net

Accounts receivable represent DISA WCF's claim for payment from other entities. The DISA WCF only recognizes an allowance for uncollectible amounts from the public. 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. The allowance for uncollectable accounts of nonfederal receivables amount is determined by using a systematic methodology that includes performing an analysis of the applicable receivable accounts utilizing three years of accounts receivable historical data.

Figure 12-Accounts Receivable, Net

(thousands)

DISA WCF 2019	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 866,812	$ -	$ 866,812
Non-Federal Receivables (From the Public)	6,580	-	6,580
Total Accounts Receivable	$ 873,392	$ -	$ 873,392

DISA WCF 2018	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 603,297	$ -	$ 603,297
Non-Federal Receivables (From the Public)	1,049	-	1,049
Total Accounts Receivable	$ 604,346	$ -	$ 604,346

Note 9. General Property, Plant and Equipment, Net

The DISA WCF General PP&E is comprised of telecommunications services and computing services related equipment, software, leasehold improvements, construction-in-progress, and assets under capital lease with a net book value (NBV) of $804.8 million.

As disclosed in Note 1.M., the result of identifying more precise information and in-service dates for items now maintained within the Defense Property Accountability System (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:

Figure 13-General Property, Plant, and Equipment, Net

(thousands)

DISA WCF 2019	Acquisition Value	Accumulated Depreciation
General Equipment	$ (174,090,815)	$ 160,902,079
Software	14,969,806	(9,388,030)
Assets Under Capital Lease	12,997,516	(9,577,536)
Total Adjustment	$ (146,123,493)	$ 141,936,513

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

The DISA WCF does not possess any Stewardship PP&E (Federal Mission PP&E, Heritage Assets, or Stewardship Land).

Figure 14- General Property, Plant, and Equipment, Net

(thousands)

DISA WCF 2019 Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
B. Buildings, Structures, and Facilities	S/L	20 or 40	1,189	(154)	1,035
C. Leasehold Improvements	S/L	Lease term	13,272	(9,567)	3,705
D. Software	S/L	2-5 or 10	130,187	(74,377)	55,810
E. General Equipment	S/L	Various	1,866,857	(1,284,275)	582,582
F. Assets Under Capital Lease	S/L	Lease term	363,716	(281,320)	82,396
G. Construction-in-Progress	N/A	N/A	79,299	N/A	79,299
H. Other	N/A	N/A	-	-	-
I Total General PP&E			$ 2,454,520	$ (1,649,693)	$ 804,827

DISA WCF 2018 Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
B. Buildings, Structures, and Facilities	S/L	20 or 40	1,041	(13)	1,028
C. Leasehold Improvements	S/L	Lease term	13,272	(8,289)	4,983
D. Software	S/L	2-5 or 10	76,460	(42,037)	34,423
E. General Equipment	S/L	5 or 10	1,893,778	(1,317,011)	576,767
F. Assets Under Capital Lease	S/L	Lease term	353,058	(257,153)	95,905
G. Construction-in-Progress	N/A	N/A	43,468	N/A	43,468
I Total General PP&E			$ 2,381,077	$ (1,624,503)	$ 756,574

Note 10. Other Assets

The DISA WCF Other Assets is comprised of prepaid contracts for software licenses and maintenance contract services reported by TSEAS in support of Network Services (PE55) and CS (PE54) mission requirements. The decrease between years is the result of the amortization or prior year prepaid contracts and no new prepaid amount during FY 2019. Decisions to prepay large service contracts are based on contract terms and influenced by the discount offered and availability of authority (funds). 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	$ -	$ -
C. Total Intragovernmental Other Assets	$ -	$ -
2. Non-Federal Other Assets		
B. Advances and Prepayments	$ -	$ 32,559
D. Total Non-Federal Other Assets	$ -	$ 32,559
3. Total Other Assets	$ -	$ 32,559

Note 11. Liabilities Not Covered by Budgetary Resources

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

Intragovernmental Liabilities-Other is comprised of DISA WCF's unfunded FECA liability in the amount of $1.1 million. These liabilities will be funded in future periods.

Nonfederal Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. As of September 30, 2019, DISA WCF's liabilities consist of actuarial FECA liability for Workers Compensation benefits in the amount of $4.8 million. These liabilities will be funded in future periods.

Figure 16-Liabilities Not Covered by Budgetary Resources

(thousands)

		2019		2018
1. Intragovernmental Liabilities				
C. Other	$	1,105	$	1,149
D. Total Intragovernmental Liabilities	$	1,105	$	1,149
2. Non-Federal Liabilities				
B. Military Retirement and Other Federal Employment Benefits	$	4,773	$	5,103
C. Other Liabilities		15		2,274
D. Total Non-Federal Liabilities	$	4,788	$	7,377
3. Total Liabilities Not Covered by Budgetary Resources	$	5,893	$	8,526
4. Total Liabilities Covered by Budgetary Resources	$	977,413	$	734,912
6. Total Liabilities	$	983,306	$	743,438

Note 13. Military Retirement Benefits 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 WCF 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 WCF and DISA GF.

The DOL provided an estimate for DISA's future workers' compensation benefits of $10.5 million. The DISA distributed $4.8 million to DISA WCF and $5.7 million to DISA GF based upon staffing ratios. The DISA made the distribution using DISA's normal methodology of apportioning FECA liability to WCF and GF 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 $329.4 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 and 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	$ 4,773	$ -	$ 4,773
B. Voluntary Separation Incentive Programs	-	-	-
C. DoD Education Benefits Fund	-	-	-
D. Other	-	-	-
E. Total Other Benefits	$ 4,773	$ -	$ 4,773
3. Total Military Retirement and Other Federal Employment Benefits	$ 4,773	$ -	$ 4,773

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	$ 5,103	$ -	$ 5,103
B. Voluntary Separation Incentive Programs	-	-	-
C. DoD Education Benefits Fund	-	-	-
D. Other	-	-	-
E. Total Other Benefits	$ 5,103	$ -	$ 5,103
3. Total Military Retirement and Other Federal Employment Benefits	$ 5,103	$ -	$ 5,103

Note 15. Other Liabilities

Intragovernmental

Federal Employee's Compensation Act FECA Reimbursements to the DOL - $1 million: The FECA Program provides benefits to employees injured on the job and their beneficiaries. The program is administered by the DOL which pays claim amounts then seeks reimbursement from DISA WCF. The amount owed by DISA WCF for FECA liabilities has two components. The first component represents the billed amount payable to DOL in FY 2018 for amounts actually paid on behalf of DISA WCF. The second component represents both incurred and an actuarial liability which is an estimate of future payments to be made by DOL. The actuarial liability is based on historical patterns, assessed level of risk and medical and wage inflation factors. Refer to Note 13, Military Retirement and Other Federal Employee Benefits for the estimated FECA actuarial liability. Both liabilities are unfunded until budgetary resources become available for reimbursement.

Employer Contribution and Payroll Taxes - $2.4 million: The DISA WCF pays a portion of employee medical and life insurance premiums, and makes contributions to employee pension plans. The DISA WCF employees are generally covered under the Civil Service Retirement System or the Federal Employee Retirement Systems.

Non-Federal

Accrued Funded Payroll and Benefits – $39.6 million: The DISA WCF 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. Unused leave is an unfunded liability which will be paid from future resources when taken or when the employee retires or separates. The liability reported at the end of the accounting period reflects the current pay rates. When sick leave is earned, a liability is not recognized for unused amounts because employees do not vest in this benefit; sick and holiday leave is expensed when taken.

Advances from Others - $748.7 thousand: This liability primarily consists of decentralized contract orders whereby DISA customers place orders directly with the vendors for which the DITCO fee is collected prior to being billed.

FY19 Contingent Labilities - $14.8 thousand consist of a contingent liability for a probable future outflow of a known amount as identified by DISA General Counsel.

Figure 18-Other Liabilities

(thousands)

2019	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
E. FECA Reimbursement to the Department of Labor	$ 467	$ 638	$ 1,105
F. Custodial Liabilities	1	-	1
G. Employer Contribution and Payroll Taxes Payable	2,381	-	2,381
I. Total Intragovernmental Other Liabilities	$ 2,849	$ 638	$ 3,487
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 39,642	$ -	$ 39,642
B. Advances from Others	749	-	749
K. Contingent Liabilities	15	-	15
M. Total Non-Federal Other Liabilities	$ 40,406	$ -	$ 40,406
3. Total Other Liabilities	$ 43,255	$ 638	$ 43,893

2018	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
E. FECA Reimbursement to the Department of Labor	$ 502	$ 647	$ 1,149
F. Custodial Liabilities	-	-	-
G. Employer Contribution and Payroll Taxes Payable	2,241	-	2,241
I. Total Intragovernmental Other Liabilities	$ 2,743	$ 647	$ 3,390
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 37,723	$ -	$ 37,723
B. Advances from Others	24	-	24
G. Employer Contribution and Payroll Taxes Payable	344	-	344
K. Contingent Liabilities	2,274	-	2,274
M. Total Non-Federal Other Liabilities	$ 40,365	$ -	$ 40,365
3. Total Other Liabilities	$ 43,108	$ 647	$ 43,755

Note 16. Leases

Figure 19-Entity as Lessee, Assets Under Capital Lease (Table 16A)

(thousands)

	2019	2018
Land and Buildings....................	$ -	$ -
Equipment.................................	363,716	353,058
Accumulated Amortization.......	(281,320)	(257,153)
Total Capital Lease....................	$ 82,396	$ 95,905

The DISA WCF records assets that meet the capital lease criteria defined by FASAB Statements of Federal Financial Accounting Standard No. 6. These assets represent agreements for the exclusive use of certain transoceanic cables in support of network communications as part of the optical transport network.

In prior fiscal years, DISA WCF transferred in DISN Core Program capital leases and accumulated amortization from DISA GF. However, these leases were paid in full at the inception of the lease and therefore, future lease payments are not made, nor is an associated lease liability recognized.

The DISA WCF has operating leases for land, buildings and equipment. Future lease payments due as of September 30, 2019, were as follows:

Figure 20-Future Payments Due for Non-Cancelable Operating Leases (Table 16D)

(thousands)

2019	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2020	$ 3,744	$ 247	$ -	$ 3,991
2021	3,621	247	-	3,868
2022	3,280	-	-	3,280
2023	1,271	-	-	1,271
2024	1,313	-	-	1,313
After 5 Years	4,673	-	-	4,673
Total Federal Future Lease Payments	$ 17,902	$ 494	$ -	$ 18,396
2. Total Non-Federal Future Lease Payments	$ -	$ -	$ -	$ -
3. Total Future Lease Payments	$ 17,902	$ 494	$ -	$ 18,396

2018	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2019	$ 4,286	$ 322	$ -	$ 4,608
2020	3,744	156	-	3,900
2021	3,621	156	-	3,777
2022	3,280	-	-	3,280
2023	1,271	-	-	1,271
After 5 Years	5,986	-	-	5,986
Total Federal Future Lease Payments	$ 22,186	$ 634	$ -	$ 22,822
2. Total Non-Federal Future Lease Payments	$ -	$ -	$ -	$ -
3. Total Future Lease Payments	$ 22,186	$ 634	$ -	$ 22,822

Land and Building Leases

As of September 30, 2019, DISA WCF operates in 20 locations of which 17 of these sites are located on property (primarily military bases) where no rent is charged and only utilities are required. The 3 remaining sites are located on both commercial and government-owned properties and covered under long-term real estate leases expiring at various dates through 2028. The DISA WCF acquires space for government owned property through the GSA, which acquires and manages most commercial property leases on behalf of the federal government. These leases generally require DISA WCF to pay property tax, utilities, security, custodial services, parking, and operating expenses. Certain leases contain renewal options.

Equipment Leases

The equipment leases are operating leases for photocopiers, and vehicles. The DISA WCF currently leases 64 photocopiers and 23 vehicles located at various sites. The photocopiers are leased for three years, while the vehicles are leased for one year with annual renewal options.

Note 17. Commitments and Contingencies

The DISA WCF is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal government. These matters arise in the normal course of operations; generally relate to equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the *Treasury Judgment Fund*. In most cases, the DISA WCF does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the *Contracts Disputes Act* or the *No FEAR Act*.

In accordance with *SFFAS No. 5*, *Accounting for Liabilities of the Federal Government,* as amended by *SFFAS No. 12*, *Recognition of Contingent Liabilities Arising from Litigation,* an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The DISA WCF has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

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 that are supported by DISA WCF. The intent of the SNC is to provide gross and net cost information related to the CS and TSEAS program elements of the DISA WCF.

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 WCF and a nonfederal entity.

The DISA WCF reports exchange revenues for inflows of resources that have been earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Pricing policy for exchange revenue is derived from stabilized rates established to recover estimated operating expenses incurred for the applicable fiscal year and to provide sufficient working capital for the acquisition of fixed assets as approved by the Under Secretary of Defense (Comptroller). Stabilized rates and unit prices are established at levels intended to equate estimated revenues to estimated costs. When gains or losses occur in prior fiscal years resulting from under or over applied stabilized rates and/or prices, and those gains or losses are included in current year stabilized rates, the estimated revenues may not equal estimated costs.

The following schedule supports the summary information presented in the SNC and discloses separately intragovernmental activity (transactions with other federal agencies) from transactions with the public. Costs incurred through the procurement of goods and services from both public and other federal agency providers along with revenues earned from public and other federal customers is shown for each line of business. As a business-type activity under SFFAS 55, DISA WCF also displays the elimination of costs incurred and revenue earned for WCF programs that received and provided services to one another. The DISA WCF's services are priced to recover the full cost of resources consumed to produce the service.

Figure 21-General Disclosures Related to the Statement of Net Cost

(thousands)

	2019	2018
Operations, Readiness & Support		
1. Gross Cost	7,393,535	6,790,939
2. Less: Earned Revenue	(7,336,803)	(6,729,603)
Net Program Costs	$ 56,732	$ 61,336
	2019	**2018**
Consolidated		
1. Gross Cost	7,393,535	6,790,939
2. Less: Earned Revenue	(7,336,803)	(6,729,603)
Total Net Cost	**$ 56,732**	**$ 61,336**

Figure 22-Consolidating Statement of Net cost by Responsibility Segment Cost and Earned Revenues with the Public and Intragovernmental

(thousands)

2019	With the Public	Intra-governmental	Intra-WCF Eliminations	Consolidated
Computing Svcs				
Gross Costs	$ 211,171	$ 879,903	$ (867,189)	$ 223,886
Less earned revenues	(10)	(1,057,301)	-	(1,057,311)
Net Costs	$ 211,161	$ (177,398)	$ (867,189)	$ (833,426)
TSEAS				
Gross Costs	$ 6,953,242	$ 216,390	$ -	$ 7,169,632
Less earned revenues	(6,882)	(7,139,780)	867,189	(6,279,474)
Net Costs	$ 6,946,360	$ (6,923,390)	$ 867,189	$ 890,158
Component Level *				
Gross Costs	$ (146,602)	$ 146,620	$ -	$ 18
Less earned revenues	0	(18)	-	(18)
Net Costs	$ (146,602)	$ 146,602	$ -	$ 0
Net Cost of Operations				
Gross Costs	$ 7,017,811	$ 1,242,913	$ (867,189)	$ 7,393,536
Less Total Revenues	(6,892)	(8,197,100)	867,189	(7,336,803)
Total Net Costs	$ 7,010,919	$ (6,954,186)	$ -	$ 56,733

2018	With the Public	Intra-governmental	Intra-WCF Eliminations	Consolidated
Computing Svcs				
Gross Costs	$ 202,353	$ 792,824	$ (734,596)	$ 260,581
Less earned revenues	(203)	(1,028,446)	-	(1,028,648)
Net Costs	$ 202,151	$ (235,621)	$ (734,596)	$ (768,067)
TSEAS				
Gross Costs	$ 6,339,206	$ 191,152	$ -	$ 6,530,358
Less earned revenues	(5,567)	6,429,984	734,596	(5,700,955)
Net Costs	$ 6,333,640	$ (6,238,833)	$ 734,596	$ 829,403
Component Level *				
Gross Costs	$ 29,110	$ (29,110)	$ -	$ -
Less earned revenues	-	-	-	-
Net Costs	$ 29,110	$ (29,110)	$ -	$ -
Net Cost of Operations				
Gross Costs	$ 6,570,669	$ 954,866	$ (734,596)	$ 6,790,939
Less Total Revenues	(5,769)	(7,458,430)	734,596	(6,729,603)
Total Net Costs	$ 6,564,900	$ (6,503,564)	$ -	$ 61,336

*Component Level represents adjustments entered into Defense Departmental Reporting System (DDRS) at DISA WCF consolidated level such as elimination adjustments and intra-entity capitalized purchases.

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 WCF 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 WCF does not have Funds from Dedicated Collections.

Note 21. Disclosures Related to the Statement of Budgetary Resources

As a revolving fund, DISA WCF budgetary resources are normally derived from customer reimbursements rather than direct appropriations. As such, obligated and unobligated amounts are generally not subject to cancellation which would affect the time period in which funds may be used.

As of September 30, 2019, DISA WCF incurred $8.3 billion of obligations, all of which are reimbursable and none of which are exempt from apportionment.

The total unobligated balance available (Apportioned) as of September 30, 2019 is $435.8 million, and represents the cumulative amount of budgetary authority that has been set aside to cover future obligations for the current period.

The DISA WCF's SBR includes intra-entity transactions because the statements are presented as combined.

As of September 30, 2019, DISA WCF's Net Amount of Budgetary Resources Obligated for Undelivered Orders is $3 billion.

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

The amount of obligations incurred by DISA WCF may not be directly compared to the amounts reported on the *Budget of the United States Government* because DISA WCF 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 23-Disclosures to the Statement of Budgetary Resources

(thousands)

		2019		2018
1. Intragovernmental				
A. Unpaid	$	476,212	$	520,738
B. Prepaid/Advanced		-		6,607
C. Total Intragovernmental	$	476,212	$	527,345
2. Non-Federal				
A. Unpaid		2,568,428		2,435,834
B. Prepaid/Advanced		-		32,559
C. Total Non-Federal	$	2,568,428	$	2,468,393
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	3,044,640	$	2,995,738

Note 24- Reconciliation of Net Cost to Net Outlays

The DISA WCF 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 24-Reconciliation of net Cost of Operations to Net Outlays

(thousands)

2019	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ (6,938,496)	$ 6,995,228	$ 56,732
Components of Net Cost That Are Not Part of Net Outlays:			
2. Property, Plant, and Equipment Depreciation	$ -	$ (91,965)	$ (91,965)
3. Property, Plant, and Equipment Disposal & Revaluation	-	(5,055)	(5,055)
6. Other	(119,210)	150,359	31,149
7. Increase/(Decrease) in Assets:	-	-	
7a. Accounts Receivable	277,931	5,531	283,462
7d. Other assets	(6,607)	(32,559)	(39,166)
8. (Increase)/decrease in liabilities:			
8a. Accounts Payable	(17,424)	(231,168)	(248,592)
8b. Salaries and Benefits	(141)	(1,576)	(1,717)
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	43	2,589	2,632
9. Other Financing Sources:			
9a. Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(52,900)	-	(52,900)
10. Total Components of Net Cost That Are Not Part of Net Outlays	$ 81,692	$ (203,844)	$ (122,152)
Components of Net Outlays That Are Not Part of Net Cost:			
12. Acquisition of Capital Assets	28,894	22,912	51,808
15. Other	(1)	-	(1)
16. Total Components of Net Outlays That Are Not Part of Net Cost	28,893	22,912	51,805
18. Net Outlays	$ (6,827,911)	$ 6,814,296	$ (13,615)
19. Agency Outlays, Net, Statement of Budgetary Resources			$ (13,615)
20. Reconciling Difference			$ (0)

These Notes Do Not Apply to DISA WCF:

Note 4- Cash and Other Monetary Assets

Note 5- Investments and Related Interest

Note 7- Direct Loan 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- Reporting 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 Supplementary 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. DISA has not identified WCF DM&R in FY 2019 to report. This determination is made based existing contracts in place for current funded maintenance. Regularly scheduled maintenance takes place resulting in no need for deferred maintenance. DISA guidance and procedures are in place that addresses preventative maintenance as well as scheduled and unscheduled incidents requiring maintenance. Review is made for facilities, hardware, and software for current funding to deter operational and security issues. There is no request for WCF funding for deferred maintenance; hardware programs are at risk if current maintenance is not in place and if there would be lack of maintenance for software, it poses a security threat in the DISA environment. Based upon these overarching considerations, preventative maintenance takes place with current contracts to ensure operational and security capabilities. Since it is anticipated, due to the nature of the mission, required maintenance will not be deferred therefor not ranked or prioritized among other activities.

For FY 2020, deferred maintenance reporting will be reviewed and revised as needed.

DISA WCF 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 WCF 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.

2. Schedule of Consolidation

The Schedule of Consolidation displays the Balance Sheet and Statement of Net Cost in a manner to clearly identify the TSEAS, CS, 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 TSEAS or CS, such as DoL FECA related expenses and liabilities, contingent 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
Working Capital Fund
COMBINING BALANCE SHEET INFORMATION
As of September 30, 2019
(000)

	CS	TSEAS	Combined	Intra-Entity Eliminations	FY 2019 Consolidated
ASSETS					
Intragovernmental:					
Fund Balance with Treasury	$ 267,695	$ 284,850	$ 552,545	$ -	$ 552,545
Accounts Receivable	62,992	923,478	986,471	(119,658)	866,812
Total Intragovernmental Assets	$ 330,687	$ 1,208,328	$ 1,539,016	$ (119,658)	$ 1,419,357
Accounts Receivable, Net	40	6,540	6,580	-	6,580
General PP&E, Net	199,401	605,426	804,827	-	804,827
TOTAL ASSETS	$ 530,128	$ 1,820,294	$ 2,350,422	$(119,658)	$ 2,230,764
LIABILITIES					
Intragovernmental:					
Accounts Payable	$ 139,929	$ 18,394	$ 158,322	$(113,078)	$ 45,245
Other Liabilities	2,084	1,403	3,488	-	3,487
Total Intragovernmental Liabilities	142,013	19,797	161,809	(113,078)	48,732
Non-Federal:					
Accounts Payable	8	895,967	895,975	(6,580)	889,395
Military Retirement and Other Federal Employment Benefits	2,622	2,151	4,774	-	4,773
Other Liabilities	21,646	18,760	40,405	-	40,406
TOTAL LIABILITIES	$ 166,289	$ 936,675	$ 1,102,963	$ (119,658)	$ 983,306
NET POSITION					
Cumulative Results of Operations - Other Funds	363,839	883,619	1,247,458	-	1,247,458
TOTAL NET POSITION	$ 363,839	$ 883,619	$ 1,247,458	$ -	$ 1,247,458
TOTAL LIABILITIES AND NET POSITION	$ 530,128	$ 1,820,294	$ 2,350,422	$ (119,658)	$ 2,230,764

Defense Information Systems Agency
Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2019
(000)

Combining Statement of Budgetary Resources

	CS	TSEAS	FY 2019
Budgetary Resources (discretionary and mandatory):			
Unobligated balance from prior year budget authority, net	$ 148,830	$ 832,568	$ 981,398
Contract Authority (discretionary and mandatory)	42,255	2,836	45,091
Spending Authority from offsetting collections	1,019,771	7,028,337	8,048,108
Total Budgetary Resources	1,210,856	7,863,741	9,074,597
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	1,075,898	7,175,026	8,250,924
Unobligated balance, end of year: Apportioned, unexpired accounts	134,959	300,809	435,768
Unapportioned, unexpired accounts	-	387,905	387,905
Unexpired unobligated balance, end of year	134,959	688,714	823,673
Unobligated balance, end of year (total)	134,959	688,714	823,673
Total Budgetary Resources	1,210,857	7,863,740	9,074,597
Outlays, net:			
Outlays, net (total) (discretionary and mandatory)	(4,683)	(8,932)	(13,615)
Agency Outlays, net (discretionary and mandatory)	$ (4,683)	$ (8,932)	$ (13,615)

Defense Information Systems Agency
Working Capital Fund
CONSOLIDATING STATEMENT OF NET COST
As of September 30, 2019
(000)

PROGRAM COSTS	CS	TSEAS	Combined	Intra-entity Eliminations	FY 2019 Consolidated
Gross Costs	$ 1,091,074	$ 7,169,632	$ 8,260,707	$ (867,171)	$ 7,393,535
Less: Earned Revenue	$ (1,057,311)	$ (7,146,663)	$ (8,203,975)	$ 867,171	$ (7,336,804)
Net Cost of Operations	$ 33,763	$ 22,969	$ 56,732	$ -	$ 56,732

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.

GRIBBLE.JAMES.EMORY.II.1044411489

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 FOR UNDER 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 Working Capital Fund Financial Statements and Related Notes for FY 2019 and FY 2018 (Project No. D2019-D000FL-0107.000, Report No. DODIG-2020-052)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Information Systems Agency (DISA) Working Capital 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 Working Capital 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 Working Capital 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 four material weaknesses related to the DISA Working Capital 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 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 expense and revenue samples in a complete and consistent manner and did not properly account for inaccurate prior-period accruals and associated FY 2019 adjustments, which affects DISA's ability to support the validity and accuracy of Gross Costs and Earned Revenue.

- 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.

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.

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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.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearny & 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 Working Capital 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 Working Capital 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 Auditor's 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 Inspector General of the Department of Defense

Report on the Financial Statements

We were engaged to audit the accompanying consolidated Working Capital Fund (WCF) financial statements of the Defense Information Systems Agency (DISA), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, the related consolidated 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 $553 million 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.

As of September 30, 2019, DISA reported $873 million in Accounts Receivable and $935 million in Accounts Payable on its balance sheet. As of September 30, 2019, DISA reported $7.3 billion of Earned Revenue and $7.4 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.

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

KEARNEY& COMPANY

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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 Working Capital Fund 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 controls 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
II. Accounts Receivable and Accounts Payable	A. Failure to Provide Supporting Documentation B. Untimely Corrections of Prior Period Revenue Transactions
III. Budgetary Resources	A. Invalid Unfilled Customer Orders B. Invalid Undelivered Obligations C. Untimely Undelivered Order Transactions
IV. Information Technology	Information System Security Controls

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

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

A. Suspense Accounts
B. Statements of Differences
C. Creation of the Cash Management Report.

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 Financial Accounting Management Information System – Working Capital Fund (FAMIS-WCF), 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 the DoD's suspense accounts were placed there as part of various established processes, rather than through processing errors or a lack of documentation related 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 DISA's 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 DISA's 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 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 Differences (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, and support 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.
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 DISA's 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 symbol used by DISA (4930) that are unique to DISA 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):
    i. 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.
    ii. Key personnel/process owner: Clearly identify the name/title/role of the individual executing the transaction or performing the process.
    iii. Key control activities: Identify who, what, when, and how the control activity is performed and how performance of the control is documented and evidenced.
    iv. Key supporting documents: Identify the written document(s) that support execution of the process or transaction.
    v. 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 ensure the written narrative and flowchart are readily available for auditors when requested.
5. 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.
6. 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.
7. Create the CMR in a system with appropriate general application information technology (IT) controls to prevent changes to the data without appropriate authorization.

II. Accounts Receivable and Accounts Payable *(Repeat Condition)*

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

A. Failure to Provide Supporting Documentation
B. Untimely Corrections of Prior Period Revenue Transactions

A. Failure to Provide Supporting Documentation

Background: DISA participates in activities that generate revenue and expense transactions, which are reported on the Statement of Net Cost in DISA's September 30, 2019 financial statements. DISA's Working Capital Fund revenues are generated by providing information system services to other agencies and non-governmental trading partners. 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 Working Capital Fund Revenues and Expenses for the period ended June 30, 2019 totaled $5.4 billion and $5.4 billion, respectively. Substantive testing was performed over these balances for the period ended June 30, 2019.

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 a Standard Form (SF)-1080, *Vouchers for Transfers Between Appropriations and/or Funds*, detailing the amount of the transfer and appropriation, as well as citing the DISA Working Capital Fund LOA. The SF-1080 is used by DISA's service organization to process the transaction. For Revenue transactions, DISA generates the SF-1080 for services provided or 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 547 (38% of the total) Expense samples, and 173 (29% of the total) Revenue samples to support transactions recorded in the Revenue and Expense GL accounts. In many cases, DISA did not provide invoices or 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 or 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 its Revenue and 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 revenue transactions.

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

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.

B. Untimely Corrections of Prior-Period Revenue Transactions

Background: DISA's Working Capital Fund is composed of two divisions: Telecommunications Services and Enterprise Acquisition Services (TSEAS) and Computing Services (CS). Within TSEAS, DISA's operations consist of two lines of business: Telecommunications (Telecom) and Non-Telecommunications (Non-Telecom). A significant portion of TSEAS revenue is "passthrough" revenue. Passthrough revenue occurs when a customer contacts TSEAS and asks for a specific service. DISA then contracts with a vendor on behalf of its customer for this service and bills the cost of the service plus a 2.5% fee to its customer. DISA's General Fund is a significant customer of TSEAS.

TSEAS transitioned into a new Oracle-based Enterprise Resource Planning (ERP) system, FAMIS-WCF, for FY 2019. TSEAS performed an analysis to determine eligibility of different contract types for automated accruals, the percentage of the contract value to accrue, and the period in which order fulfillment is at risk, indicating the accrual should be reversed for FY 2019. TSEAS transitioned from a contract-level accrual to a contract line item accrual in order to more accurately account for expenses not yet invoiced.

Condition: DISA provided supporting documentation for a sample of 595 Revenue transactions for the period ended June 30, 2019. There were approximately 27 transactions with DISA General Fund where TSEAS corrected revenue that it determined had been overstated in a prior period, totaling a known error of approximately $20 million.

Cause: TSEAS recognizes its passthrough revenue with the General Fund based on an estimated cost accrual. In situations where the actual expense is less than the estimated accrual, TSEAS must record adjustments to reverse previously recorded revenue with the DISA GF. When timely information is not received and actual invoices cross FYs, adjustments are made to another period, which can cross FYs. Although TSEAS implemented a new accrual process to more accurately account for estimated costs in FY 2019, inaccurate prior-period accruals and associated adjustments in FY 2019 have not been properly accounted for. DISA's new accrual methodology did not consider potential prior-year misstatements based on the legacy system's accrual methodology. DISA has not established a process to accurately record revenue adjustments or account for revenue with the General Fund when actual costs are unknown.

Effect: Without an adjustment to account for inaccurate accruals, TSEAS passthrough revenue recognition potentially creates the following misstatements:

- TSEAS Revenue/Accounts Receivable overstated in FY 2018 and understated in FY 2019
- TSEAS Expense/Accounts Payable overstated in FY 2018 and understated in FY 2019
- DISA General Fund Expense/Accounts Payable overstated in FY 2018 and understated in FY 2019.

Recommendation: Kearney recommends that DISA perform the following:

1. Design and implement improvements to its accrual methodologies and underlying assumptions to ensure that Revenue transactions are recognized and recorded in the proper period. Determine the impact of prior-period adjustments due to misstated accruals. DISA should continue to refine the accrual calculation in order to reduce the dollar impact of prior-period adjustments.
2. Establish frequent communication with vendors to ensure information pertaining to the outstanding transactions is received in a timely manner.
3. Develop a process for recording an adjustment for any outstanding Revenue accrual at year-end, when information is not received in a timely manner. DISA should coordinate with DISA's General Fund to post the equivalent adjustment.

III. Budgetary Resources *(Repeat Condition)*

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

A. Invalid Unfilled Customer Orders
B. Invalid Undelivered Obligations
C. Untimely Undelivered Order Transactions.

A. Invalid Unfilled Customer Orders

Background: *Unfilled Customer Orders (UCO) Without Advance*, United States Standard General Ledger (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 Military Interdepartmental Purchase Request (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 Working Capital Fund reported more than $3.5 billion in UCOs Without Advance on its June 30, 2019 trial balance. The account balance is supported by several subledgers that provide detailed information, such as the customer, order number, order amount, and transaction date, among other unique identifying details for each UCO balance.

Condition: DISA reported 80 invalid UCOs, totaling $72 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 fund 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. 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 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 $72 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 $377 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 to supplement the contract closeout accrual.

B. Invalid Undelivered Obligations

Background: Undelivered Orders (UDO) 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 Working Capital Fund reported more than $2.6 billion in UDOs on its June 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 12 invalid CS UDOs and 93 invalid TSEAS UDOs, totaling $2.6 million and $69 million, respectively, 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 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 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 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 resulted in inaccurate reporting by DISA and a known overstatement of $71 million as of June 30, 2019 on the New Obligations and Upward Adjustments line on the FY 2019 Statement of Budgetary Resources. When extrapolated against the universe of transactions, the projected overstatement is $384 million.

Recommendation: Kearney recommends that DISA perform the following:

4. Strengthen existing policies to ensure that funds holders are adequately assessing the validity of the open UDO balances and deobligate invalid UDOs when possible.
5. 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.
6. 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 Working Capital Fund reported approximately $2.7 billion in UDOs on its June 30, 2019 trial balance.

Condition: DISA initiated 110 obligations that were not recorded in 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, the 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:

7. 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.

IV. Information Technology (*Repeat Condition*)

Background: DISA operates in a complex information system environment to execute its mission and record transactions timely and accurately. DISA operates several key financial management systems, including one core GL accounting system and multiple financial support systems for the DISA Working Capital Fund. DISA also utilizes several service organizations to support its financial operations, to include cash management, property management, payroll processing, and financial reporting. Service organization systems are systems that organizations other than DISA own and operate but still affect the agency's business processes and financial statements. 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).

In FY 2019, DISA retired FAMIS-Enterprise Acquisition Services (EAS), the GL accounting system for TSEAS, and DISA Cash Management System, a key financial support system for FAMIS-EAS. DISA began processing transactions for its TSEAS operations in its consolidated GL accounting system, FAMIS-WCF.

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 the core accounting system, key financial support systems, and service organization systems. While no single 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 testing disclosed deficiencies in the following areas:

- Security Management
  - Incomplete system security plan (SSP). Specifically, the SSP for a key financial management system did not include information regarding DISA's implementation of 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*, baseline security controls, as required by the NIST Risk Management Framework (RMF)
- Access controls and segregation of duties
  - Incomplete policies and procedures for the proper segregation of duties within a key financial management system
  - Inconsistent logging and monitoring of activity for some key financial management systems
  - Missing user access authorization forms for some key financial management systems
  - Incomplete periodic access reviews for some key financial management systems
  - Untimely removal of separated users for some key financial management systems

  - Lack of strong password configurations for a key financial management system
  - Failure to properly secure passwords for a key financial management system
- Configuration management
  - Incomplete listing of changes implemented into the production environment for some key financial management systems
  - Inconsistent documentation of configuration changes for a key financial management system
- Service Organizations
  - Insufficient evidence of monitoring service organizations
  - Incomplete implementation of the CUECs.

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.

Recommendation: Kearney recommends that DISA perform the following:

1. Develop, update, and implement policies and procedures addressing the security controls required by NIST SP 800-53, Rev. 4.
2. Complete a periodic review of each user's access in accordance with DISA's policies and procedures.
3. Update and implement configuration management procedures to include quality control reviews. These reviews should ensure that all changes follow a defined and controlled process, including maintaining appropriate supporting documentation from initial change request through implementation into the production environment.
4. Develop and document policies and procedures for reviewing the impact of each service organization's System and Organization Controls (SOC) report.
5. Perform a review of each service organization's SOC report.
6. Develop, update, and document policies and procedures for addressing CUECs, as identified within each service organization's SOC report.
7. 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 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 Working Capital Fund (WCF) 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.

KEARNEY& 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 systems 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 IV, *Information Technology*, in our *Report on Internal Control over Financial Reporting*. These deviations related to security management, access controls, configuration management, and monitoring of third-party service organizations, 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 IV, *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 IV, *Information Systems*, 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 Comments to Auditors Report

DEFENSE INFORMATION SYSTEMS AGENCY
P. O. BOX 549
FORT MEADE, MARYLAND 20755-0549

Mr. David Zavada
Kearney & Company
1701 Duke Street, Suite 500
Alexandria, VA 22314

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