Defense Information Systems Agency
General Fund
Annual Financial Report
Fiscal Year 2020

Message from the Defense Information Systems Agency

As Director of the Defense Information Systems Agency (DISA), I am pleased to present the Annual Financial Report (AFR) for the DISA General Funds (GF), as of September 30, 2020. As directed by Office of Management and Budget (OMB), Circular A-136, included in the AFR are the Management Discussion and Analysis to accompany the financial statements and footnotes for the FY 2020 GF Financial Statements, and a Performance and Financial Section which contains the auditor's signed report.

DISA fully supports the Department's goal to achieve auditable financial statements. The Agency continues its endeavors to improve its operational posture, always in support of the warfighter and with continual awareness of a distinct position of trust to the American people. Our mission is accomplished through an enterprise information structure with a top down, as well as, bottom-up approach to effective internal controls throughout the Agency. Audit is an enterprise-wide undertaking with the entire DISA workforce engaging in day-to-day challenges associated with audit readiness to sustain an effectual audit posture.

DISA conducted its assessment of risk and internal controls in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." DISA's assessment identified two material weaknesses (MWs), unmatched disbursements and dormant obligations, impacting its GF financial environment. 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 2020.

The Agency continues to enhance and optimize our structure to more effectively execute our mission, strengthen our stance in support of a prime cyber force, improve accountability, reduce inefficiencies, and advance sound cost management principles.

NANCY A. NORTON
Vice Admiral, USN
Director

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DISA Working Capital Fund FY 2020
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) 2020 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 Department of Defense (DoD) Chief Information Officer's (CIO) Capability Planning Guidance (CPG). The DoD CIO vision is "To deliver an Information Dominant Domain to Defeat our Nation's Adversaries".

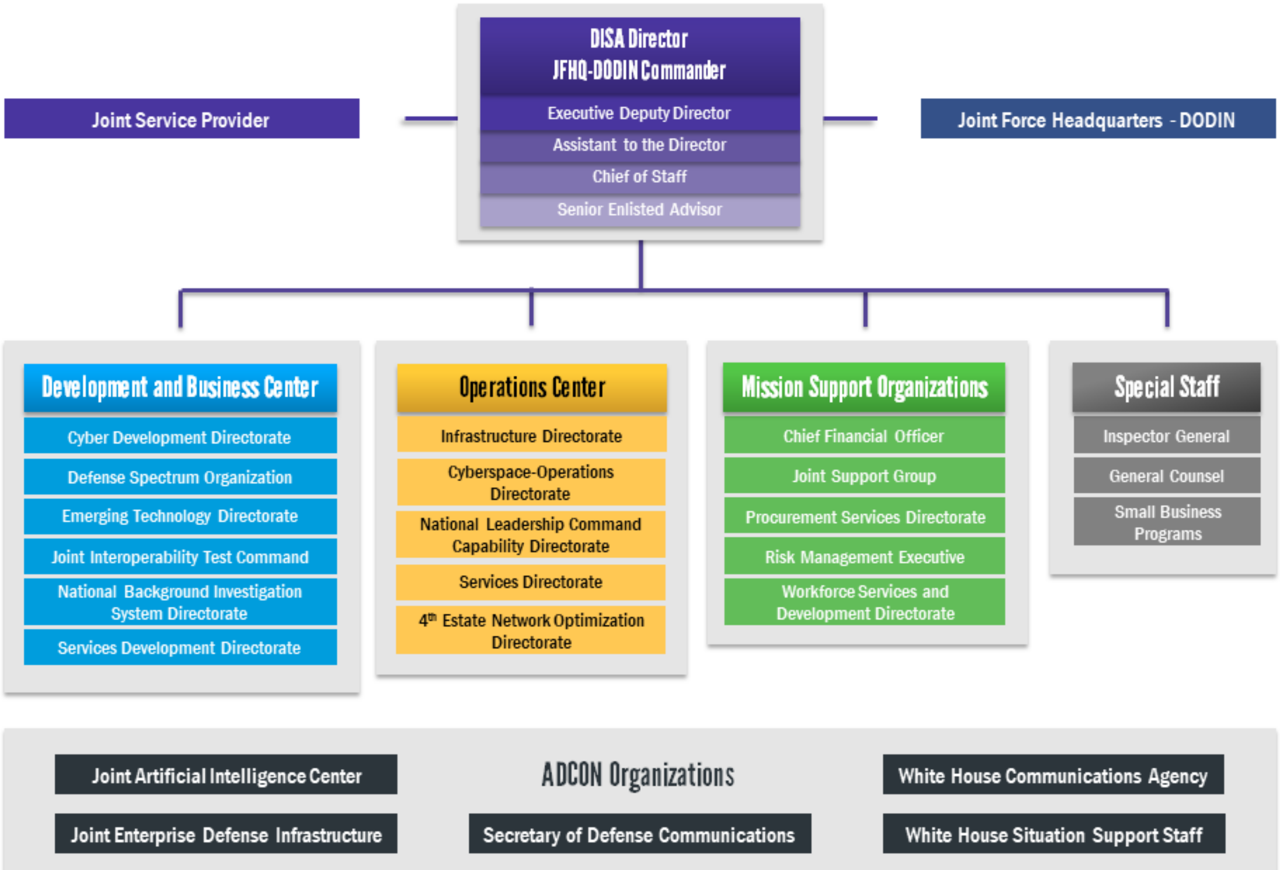
DISA serves the needs of the President, Vice President, Secretary of Defense (SECDEF), Joint Chiefs of Staff, COCOMs, and other DoD components during peace and war. In short, the DISA provides global net-centric solutions in the form of networks, computing infrastructure, and enterprise services to support 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 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 Command, Control, Communications, and Intelligence (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 February 2020 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 working capital fund 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 (CS).

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 subscription service, 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 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.

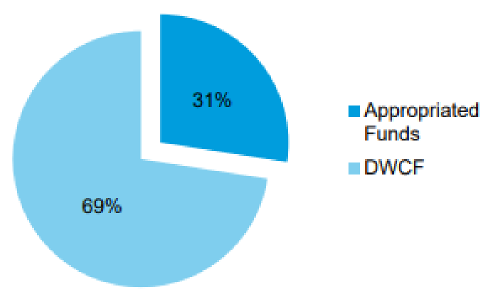
Resources: DISA is a combat support agency of the DoD with a $11.4 billion-dollar annual budget.

BUDGET

Appropriated
(Based on FY20 President's Budget - Enacted)
Total Appropriated: $3,589.6M

Defense Working Capital Fund (DWCF)
(Based on FY20 President's Budget)
Total DWCF: $7,810.646M

**Updated August 2020*



Global Presence: DISA is a global organization of approximately 7,300 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: Office of the Chief Financial Officer, Development and Business Center, Chief of Staff, Defense Spectrum Organization, General Counsel, Inspector General (IG), Joint Artificial Intelligence Center, the Joint Force Headquarters (DoDIN), JSP, Joint Support Group, Operations Center (OC), Procurement Services Directorate (PSD), Risk Management Executive (RME), Small Business Programs, White House Communications Agency, and Workforce Services and Development Directorate (WSD). 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 End User Support 1.3 Computing 1.4 Defensive Cyber Operations-Internal Defensive Measures Readiness
Adopt Before We Buy and Buy Before We Create	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

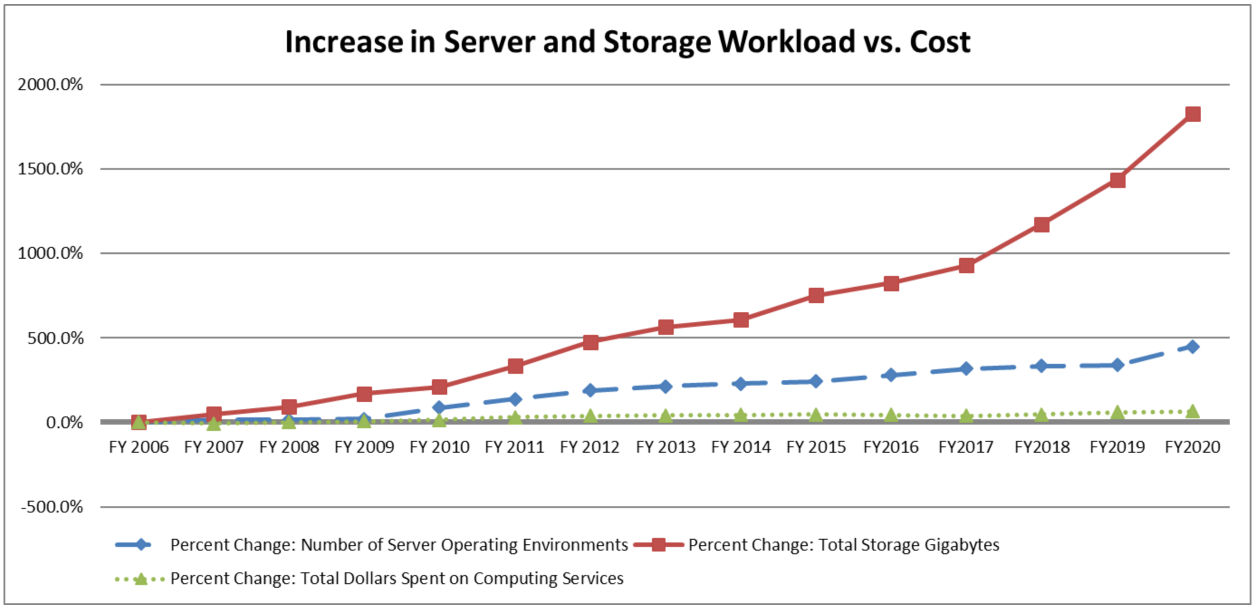
DISA's strategic plan framework outlines mutually reinforcing programs, projects, and initiatives that link the three goals to DISA's mission. To operate and defend, adopt, buy, and create solutions, and enable people and reform of the agency, ensures DISA conducts DODIN operations for the joint warfighter 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.

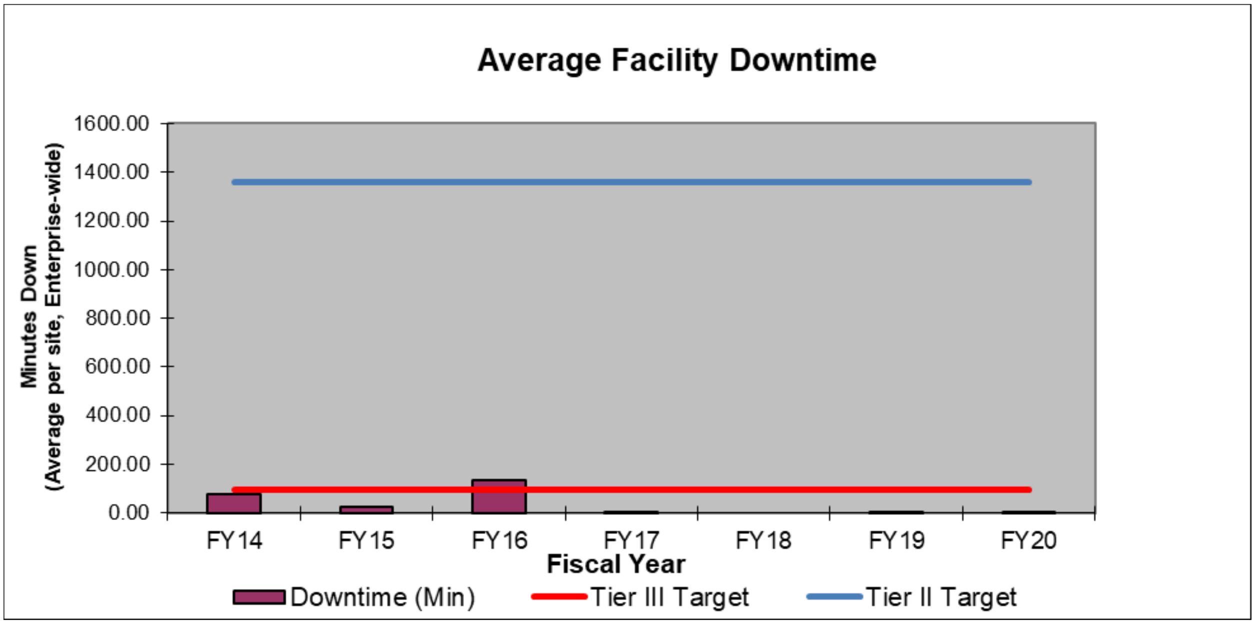
Computing Services Performance Measures

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 448 percent, and total storage gigabytes have increased by 1,828 percent. Over the same timeframe, the cost to deliver all computing services has increased by only 66 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 following tables, reflect the availability of critical applications in the Core Data Centers. The first metric, "Core Data Center Availability," expressed in minutes per year, 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 limits downtime to approximately 1,361 minutes per year. Tier III, the standard for all DoD-designated Core Data Centers, requires achieving 99.98% availability, which limits downtime to approximately 95 minutes per year. 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

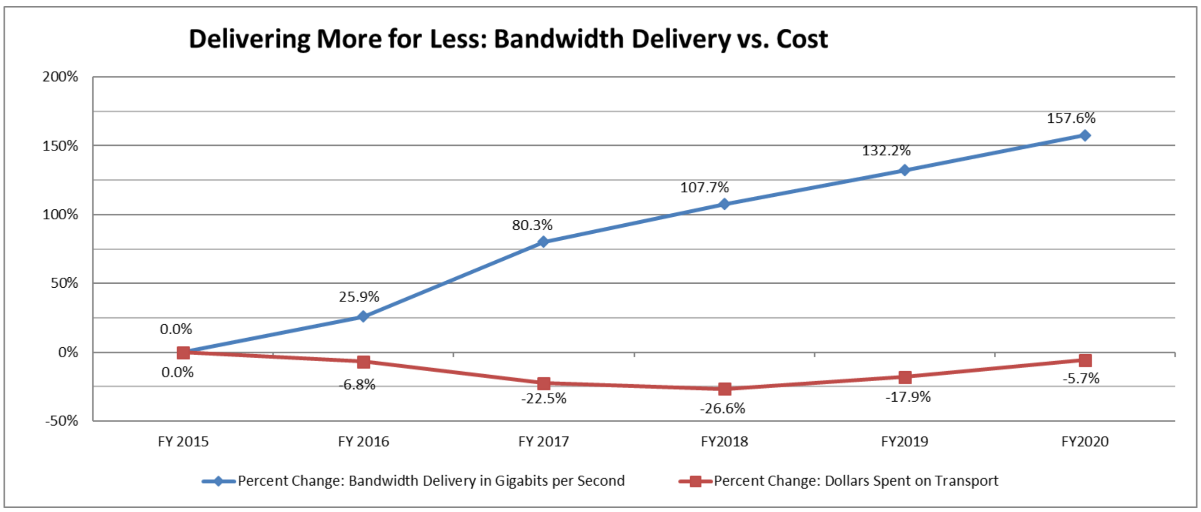


Capacity Service Contract Equipment Availability

	Threshold	Objective	Actual
IBM System z Mainframe	99.95%	99.99%	100%
Unisys Mainframe	99.95%	99.99%	100%
P Series Server	99.95%	99.99%	100%
SPARC Server	99.95%	99.99%	100%
X86 Server	99.95%	99.99%	99.999%
Itanium	99.95%	>99.95%	99.999%
Storage	99.95%	>99.95%	99.996%
Communications Devices	99.95%	>99.95%	99.999%

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 157.6 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 -5.7 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 2020 Estimated Actual	FY 2021 Operational Goal	FY 2022 Operational Goal
Non-Secure Internet Protocol Router Network access circuit availability	99.77%	98.50%	98.50%
Secure Internet Protocol Router Network latency (measurement of network delay) in the continental United States	45.43 milliseconds (CONUS INTRA)	≤ 100 milliseconds	≤ 100 milliseconds
Optical Transport network availability	99.63%	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. Enterprise Acquisition Services provides contracting services for information technology and telecommunications acquisitions from the commercial sector and provides contracting support to the DISN programs, as well as to other DISA, DoD, and authorized non-Defense customers. These contracting services are provided through the DISA's DITCO and include acquisition planning, procurement, tariff surveillance, cost and price analyses, and contract administration. These services provide end-to-end support for the mission partner. The following performance measures apply for EAS:

SERVICE OBJECTIVE	FY 2020 Estimated Actual	FY 2021 Operational Goal*	FY 2022 Operational Goal*
Percent of total eligible contract dollars competed	76.4%	73.00%	73.00%
Percent of total eligible contract dollars awarded to small businesses	24.00%	28.00%	28.00%

*FY 2021 and FY 2022 goals for percent of total eligible contract dollars competed are estimates based on the released FY 2020 goal. Defense Pricing and Contract (DPC) or Industrial Policy (IP) has not yet released the goals.

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 accounting principles generally accepted 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 DISA Audit Committee is comprised of three members not part of DISA. 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 General Fund Financial Highlights

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

Executive Summary - The DISA General Fund Financial Statements for the quarter ended September 30, 2020 reflect a fund that had an increase in overall appropriations in FY 2020 compared to FY 2019. See table below for comparative data for appropriations received between these two fiscal years.

Figure -1 Executive Summary

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)	$ 2,878,480	$ 2,186,198	$ 692,282	32%
PROC (0300)	405,035	789,693	(384,658)	-49%
RD&E (0400)	505,763	326,112	179,651	55%
MILCON (0500)	0	(7,195)	7,195	-100%
Consolidated Balance	$ 3,789,278	$ 3,294,808	$ 494,471	15%

All general ledger subsidiary detail has been reconciled to the field level accounting system trial balances, and all journal vouchers posted to Defense Department Reporting System-Budgetary (DDRS-B) and DDRS-Audited Financial Statement (AFS) have been reconciled to ensure that the DDRS-AFS trial balance is 100% supported by transaction detail. All journal vouchers posted in DDRS-B and DDRS-AFS by DFAS have been reviewed and approved by the DISA CFA3 staff.

The following financial statement highlights present an explanation of amounts reported in significant financial statement line items and/or financial notes, and variances between 4th Quarter, FY 2020 reported balances and 4th Quarter, FY 2019. Additionally, as required by the recent OSD guidance for Variance Analysis, the comparison of the balance sheet between current period and prior year-end will also be addressed. Balances that have the same underlying explanation between budgetary and proprietary accounts are explained from the proprietary perspective and referenced from the budgetary perspective. Due to rounding, tables in this document may not add to overall totals.

CONSOLIDATED STATEMENT OF NET COST

Net Cost of Operations increased by $475.6 million (15%) between 4th Quarter, FY 2019 and 4th Quarter, FY 2020. The change in Net Cost of Operations is comprised of an increase in gross cost of $422.8 million and a decrease in earned revenue of $52.9 million from Q4 FY 2019 to Q4 FY 2020.

Figure 2- Net Cost of Operations

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)	$ 2,670,298	$ 2,281,445	$ 388,852	17%
PROC (0300)	646,348	639,233	7,115	1%
RDT&E (0400)	362,218	277,005	85,213	31%
MILCON (0500)	(1,643)	3,904	(5,547)	-142%
Consolidated	$ 3,677,221	$ 3,201,587	$ 475,634	15%

- The increase of $388.9 million in O&M (0100) is attributable to the net impact of a $303.2 million increase in operating expenses/program costs, a $30.4 million increase in intra-entity imputed costs, and abnormally high earnings in FY 2019 due to cost transfer transactions recorded during Q4.

- The increase of $85.2 million in RDT&E (0400) is attributable to a $73.2 million increase in operating expenses/program costs, and a $10.2 million decrease in earned revenue.

- The decrease of $5.5 million in MILCON (0500) is attributable to an $8.5 million adjustment made to properly reclassify expenses related to the teleport building in Geraldton, Australia as construction-in-progress, and a $1.2 million increase in depreciation, amortization and depletion.

CONSOLIDATED BALANCE SHEET

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

Assets

Total assets of $3.6 billion are comprised primarily of Fund Balance with Treasury ($3.1 billion), Intragovernmental accounts receivable ($50 million), and General Property, Plant & Equipment (PP&E) ($406.7 million).

Fund Balance with Treasury **-** The following chart displays FY-to-Date (FYTD) net cash flow from current year operations (collections less disbursements) reported to Treasury for FY 2020 and FY 2019 by appropriation presented in a comparative manner:

Figure 3- Fund Balance with Treasury

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)	$ 1,539,529	$ 973,215	$ 566,313	58%
PROC (0300)	1,116,311	1,668,122	(551,811)	-33%
RD&E (0400)	462,328	292,225	170,103	58%
MILCON (0500)	18,567	27,149	(8,581)	-32%
Consolidated Balance	$ 3,136,735	$ 2,960,711	$ 176,024	6%

Amounts recorded in the general ledger for Fund Balance with Treasury (FBwT) have been 100% reconciled to amounts reported in the DFAS Cash Management Report (CMR), representing DISA General Fund's portion of the TI97 appropriated account balances reported by Department of Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level.

Accounts Receivable, Net - Accounts Receivable decreased $19.4 million (28%).

- The overall decrease of $20.1 million dollars in O&M (0100) Intragovernmental A/R is attributed to abnormally high earnings and unbilled A/R in 2019 due to $26 million in cost transfer transactions recorded during Q4.

- The increase in PROC (0300) Intragovernmental A/R is attributable to a $1.7 million dollar increase in undistributed collections.

- The overall decrease in RDT&E (0400) Intragovernmental A/R is attributable to the net of a $1.9 million dollar increase to overall A/R and an increase of $3.2 million dollars in eliminations entries. The increase in both overall A/R and eliminations entries is driven by process improvements, improved data mapping and overall data accuracy post system conversion.

Figure 4- Accounts Receivable

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 37,802	$ 57,925	$ (20,123)	-35%
Public	569	287	282	98%
PROC (0300)				
Intragov.	6,170	4,435	1,736	39%
Public	0	0	0	0%
RDT&E (0400)				
Intragov.	5,994	7,307	(1,313)	-18%
Public	8	11	(3)	-30%
Consolidated				
Intragov.	49,966	69,666	(19,700)	-28%
Public	577	298	279	94%
Total Consolidated	$ 50,543	$ 69,964	$ (19,421)	-28%

General Property, Plant and Equipment, Net – DISA GF General PP&E consists primarily of leasehold improvements ($32 million), equipment ($121.6 million), software ($17.9 million), and Construction-In-Progress (CIP) ($235.1 million) used in support of Agency missions.

General PP&E balances as of September 30, 2020 and 2019 are as follows:

Figure 5- General PP&E, Net

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)	$ 16,149	$ 372,207	$ (356,058)	-96%
PROC (0300)	368,648	337,658	30,991	9%
RDT&E (0400)	3,563	4,101	(538)	-13%
MILCON (0500)	18,291	10,104	8,186	81%
Consolidated	$ 406,651	$ 724,070	$ (317,419)	-44%

- The 96% decrease in O&M (0100) General PP&E of $356.1 million is due to the transfer of a Ft. Meade building from DISA to the Army, as mandated by OSD.
- The 9% increase in PROC (0300) General PP&E of $31.0 million is related to:
  - An $11.3 million increase in internal-use software purchases, and
  - A $24.1 million increase in general equipment due to placement-in-service of new acquisitions.
- The main driver of the 81% increase in MILCON (0500) General PP&E of $8.2 million is the $9.3 million increase in construction-in-progress related to the teleport building in Geraldton, Australia.

<u>Liabilities</u>

Total liabilities of $417.2 million is comprised primarily of intragovernmental accounts payable ($444.3 million), intragovernmental other liabilities ($5.4 million), non-federal accounts payable

($110.3 million), Other Federal Employment Benefits ($4.7 million), non-federal other liabilities ($73.1 million).

Liabilities Not Covered by Budgetary Resources **-** Total Liabilities not Covered by Budgetary Resources are primarily comprised of two types of liabilities: (1) Accounts Payable (A/P) balances associated with cancelled appropriations. If an A/P balance remains when an appropriation is cancelled, it is re-established. This would primarily occur if there were an accrual recorded that is still anticipated maybe invoiced and contract closeout has not occurred. If the amount is ever invoiced, it would be paid from current year appropriations. (2) Unfunded annual leave and FECA balances. These liabilities are accrued in the current period and will be funded when they come due in future years.

Figure 6-Total Liabilities Not Covered by Budgetary Resources

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 1,154	$ 1,320	$ (166)	-13%
Public	48,693	40,063	8,630	22%
Consolidated				
Intragov.	1,154	1,320	(166)	-13%
Public	48,693	40,063	8,630)	22%
Consolidated	$ 49,847	$ 41,383	$ 8,464	20%

- Non-federal liabilities O&M increased by $8.6 million due to a $9.6 million increase in unfunded annual leave, and a $1.0 million decrease in actuarial FECA liability related to Military Retirement and Other Federal Employment Benefits.

Liabilities Covered by Budgetary Resources - Total Liabilities Covered by Budgetary Resources are comprised of four types of liabilities: (1) Accounts Payable (A/P) balances are recorded in various ways based on the underlying transaction. CFA3 evaluates purchases recorded and accrues cost and A/P for service based orders as applicable. A/P for goods is based on receipt of invoice. CFA3 continues to refine the accrual methodology processes in order to more accurately match the recording of cost with the period of performance or estimated delivery date. (2) Accrued Funded Payroll and Leave, (3) Employer Contributions and Payroll Taxes, (4) Liabilities of Advances and Prepayments.

Balances reported as of September 30, 2020 and September 30, 2019 consists of the following:

Figure 7- Liabilities Covered by Budgetary Resources

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 284,062	$ 101,195	$ 182,867	181%
Public	(31,364)	31,945	(63,308)	-198%
PROC (0300)				
Intragov.	122,249	94,446	27,803	29%
Public	(46,592)	30,585	(77,177)	-252%
RDT&E (0400)				
Intragov.	42,193	5,195	36,998	712%
Public	(2,476)	8,181	(10,657)	-130%
MILCON (0500)				
Intragov.	0	1,772	(1,772)	-100%
Public	(740)	(592)	(148)	25%
Consolidated				
Intragov.	448,504	202,608	245,896	121%
Public	(81,172)	70,118	(151,290)	-216%
Consolidated	$ 367,332	$ 272,726	$ 94,606	35%

- The O&M (0100) intragovernmental increase is driven by a $113.8 million increase in normal A/P, and a $67.8 million increase in undistributed A/P disbursements.

- The O&M (0100) public decrease is caused by a $58.8 million increase in abnormal undistributed A/P disbursements.

- The PROC (0300) intragovernmental increase is driven by a $34.5 million increase to undistributed A/P disbursements.

- The PROC (0300) public decrease is driven by a $59.9 million reduction to normal A/P, and a $17.3 million reduction to undistributed A/P disbursements.

- The RDT&E (0400) intragovernmental A/P increase is driven by a $21.9 million increase to normal A/P, and a $15.1 million increase to undistributed A/P disbursements.

- The RDT&E (0400) public A/P decrease is driven by a $13.8 million reduction to undistributed A/P disbursements.

- The MILCON (0500) intragovernmental A/P decrease is driven by the liquidation of A/P with Navy GF for facility upgrades at the DISA PAC Ford Island Building 77 ($1.7 million).

Other Liabilities - Other Liabilities are primarily comprised of three types of liabilities; (1) Accounts Payable (A/P) balances associated with cancelled appropriations. If an A/P balance remains when an appropriation is cancelled, it is re-established. This would primarily occur if there was an accrual recorded that is still anticipated maybe invoiced and contract closeout has not occurred. If the amount is ever invoiced, it would be paid from current year appropriations; (2) Unfunded annual leave and FECA balances. These liabilities are accrued in the current period and will be funded when they come due in future years. (3) Accrued Funded Payroll and Leave.

Figure 8- Other Liabilities

(thousands)

DISA GF	9/30/20202	9/30/2019	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 5,362	$ 4,300	$ 1,061	25%
Public	67,335	55,396	11,939	22%
RDT&E (0400)				
Public	5,780	7,043	(1,263)	-18%
Consolidated				
Intragov.	5,362	4,300	1,061	25%
Public	73,115	62,439	10,676	17%
Consolidated	$ 78,477	$ 66,739	$ 11,738	18%

- Other Liabilities increased overall by $11.7 million, driven primarily by: a $1.5 million increase in non-federal accrued funded payroll and benefits, a $9.6 million increase in non-federal accrued unfunded annual leave, and a $1.7 million increase in non-federal employer contribution and payroll taxes payable (0100). Additional drivers are a $.3 million increase in non-federal employer contribution and payroll taxes payable, and a $1.5 million decrease in non-federal accrued funded payroll and benefits (0400).

- The intragovernmental net increase of $1 million to O&M (0100) is driven by an increase of $1.2 million to Employer Contribution and Payroll Taxes Payable and a decrease of $201 thousand to FECA Reimbursement to the Department of Labor.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

The Consolidated Statement of Changes in Net Position presents the change in net position during the reporting period. The DISA GF net position is affected by changes to its two components, Other Financing Sources and Other Financing Sources (transfers in/out without reimbursement)

- Other Financing Sources: Transfers-in/out without reimbursement decreased $511 million (820%) overall. The primary contributing factors in the decrease of PP&E are a $350 million dollar reduction in O&M related to the transfer of a Ft. Meade building from DISA to the Army, as mandated by OSD, and an additional decrease of $157 million related to the transfer-out of general property, plant, and equipment to the DISA WCF related to DISN and JRSS (PROC).

- Other Financing Sources: Imputed financing of costs absorbed by others increased by $22.7 million (9.9%) overall. This is attributable to an increase of $11.6 million in the imputed costs of military personnel supporting DISA, an increase of $18.7 million in the imputed costs of real property, and an overall decrease of $7.8 million in the imputed cost of OPM civilian benefits.

COMBINED STATEMENT OF BUDGETARY RESOURCES

Net Outlays, Reimbursements Earned – Receivable, and Delivered Orders – Unpaid[1] are reconciled with their proprietary account counterparts (FBWT, Account Receivable, and Accounts Payable) respectively

[1] Net Outlays will impact the following lines on the SBR: 1890 – Spending Authority from Offsetting Collections, 3020 – Outlays, Gross, 3090, Uncollected Payments End of Year, 4178 – Change in Uncollected Payments, 4185 – Outlays, Gross, 4187 – Offsetting Collections, and

and those variances are consistent with the variances described above. The results and variances of other key amounts reported in the Statement of Budgetary Resources are as follows:

Figure 9-Statement of Budgetary Resources

(thousands)

DISA GF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
O&M (0100)				
Obligations Incurred	$ 3,052,533	$ 2,430,178	$ 622,355	26%
Unobligated Balances	112,342	80,632	31,710	39%
Undelivered Orders	1,450,243	1,115,161	335,083	30%
Unfilled Customer Orders	76,813	74,131	2,682	4%
PROC (0300)				
Obligations Incurred	530,089	937,218	(407,129)	-43%
Unobligated Balances	182,314	305,215	(122,901)	-40%
Undelivered Orders	882,426	1,540,663	(658,237)	-43%
Unfilled Customer Orders	8,241	9,915	(1,674)	-17%
RD&E (0400)				
Obligations Incurred	578,169	364,114	214,055	59%
Unobligated Balances	113,029	124,246	(11,217)	-9%
Undelivered Orders	403,186	254,204	148,982	59%
Unfilled Customer Orders	50,018	55,786	(5,768)	-10%
MILCON (0500)				
Obligations Incurred	926	9,544	(8,618)	-90%
Unobligated Balances	12,403	13,316	(913)	-7%
Undelivered Orders	7,168	12,842	(5,674)	-44%
Consolidated				
Obligations Incurred	$ 4,161,717	$ 3,741,054	$ 420,664	11%
Unobligated Balances	$ 420,088	$ 523,409	$ (103,321)	-20%
Undelivered Orders	$ 2,743,023	$ 2,922,870	$ (179,847)	-6%
Unfilled Customer Orders	$ 135,071	$ 139,832	$ (4,760)	-3%

New Obligations and Upward Adjustments

- O&M (0100) obligations incurred net increase is driven primarily by a $486.4 million increase in undelivered orders (unpaid) related to O&M of equipment; a $76.1 million decrease to undelivered orders (unpaid) for advisory and assistance services; an $82.7 million increase in upward adjustments of prior-year delivered orders (unpaid) related to F/T permanent personnel compensation; and a $148.9 million increase in total obligations for delivered orders (paid and unpaid).
- PROC (0300) obligations incurred net decrease is driven by a $306 million decrease in undelivered orders (unpaid) in equipment, as well as a $46.3 million increase in delivered orders (paid) for O&M of equipment.
- RDT&E (0400) obligations incurred increase is driven by a $121.4 million increase in undelivered orders (unpaid) for O&M of equipment, and a $85.0 million increase in delivered and undelivered orders (paid and unpaid) for research and development contracts.
- MILCON (0500) obligations incurred decrease is driven by an $8.5 million reduction to undelivered orders (unpaid) in land and structures.

Unobligated Balance, End of Period

4190/4210 – Net Outlays. Reimbursements Earned – Receivable will impact the following lines on the SBR: 3060 – Uncollected Payments Brought Forward, 3072 – Change in Uncollected Payments. Delivered Orders – Unpaid impacts the following lines on the SBR: 3050 – Unpaid Obligations End of Year.

- O&M (0100) unobligated balance increase is driven by a $13.6 million increase in resources available for obligation or commitment (realized resources), and an $18.1 million increase in allotments – expired authority.
- PROC (0300) unobligated balance decrease is driven by a $79.3 million decrease in resources available for obligation or commitment (realized resources), and a $43.2 million decrease in commitments subject to apportionment.

RECONCILIATION OF NET COST TO NET OUTLAYS

The purpose of the reconciliation of Net Costs to Outlays is to explain how budgetary resources applied during the period relate to the net cost of operations for the reporting entity. 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. By explaining this relationship, 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. Most variances on this note are addressed in other sections above, but those not explained will be provided as required.

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 Risk Management and Internal Control (RMIC) Program 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 RMIC. The second tier is supported by 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 delegate's 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 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 has oversight of DISA's internal controls. The Office conducts testing and reports on the overall Internal Controls Over Reporting - Financial Reporting (ICOR-FR) for the Agency. Tests and reports of results are also conducted for the Internal

Controls Over Reporting - Financial Systems (ICOR-FS) for the Agency. Agency AUMs perform testing and report results of the Internal Controls over Reporting - Operations (ICOR-O) Non-Financial.

DISA's senior management evaluated the system of internal control in effect during the fiscal year as of the date of this memorandum, according to the guidance in OMB Circular No. A-123 and the Government Accountability Office (GAO) Green Book. Included is our 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 and non-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. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

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 memorandum, 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.

FY20 Internal Control Program Initiatives and Execution

In FY20, the Manager's Internal Control Program (MICP) was renamed to the Risk Management and Internal Control (RMIC) Program which further refined requirements with a focus on risk management, internal control accomplishments, fraud controls, data quality, and payment integrity controls.

Risk Management: DISA has taken an enterprise approach that covers key business processes. Risk management has been aligned to the National Defense Strategy (NDS) and the National Defense Business Operations Plan (NDBOP). DISA supported NDA Strategic Goal 3 to "Reform the Department's Business Practices for Greater Performance and Affordability" through identifying associated control activities and evaluating risk and control effectiveness. In addition, DISA adheres to the NDBOP goal of "undergoing an audit, improve the quality of budgetary and financial information that is most valuable in managing the DoD," through its audit and continuous environment of improvement and refining processes.

Entity Risk Management (ERM): The RMIC Program is managed through a three tiered approach which provides a structure to identity risk at an enterprise level as well as more granular level. The DISA

Director provides a "Tone-at-the-Top" memo which defines management's leadership and commitment towards an effective internal controls. The second tier is supported by subject-matter expert team, the Internal Control team. The third tier is supported by the AUMs who manage at the Program/Directorate level within the organization. Each Directorate senior leadership, in coordination with each Assessable Unit (AU), AUMs identify areas of risks, based upon collaboration with their respective area. The coordination and consolidation of risk identifies the overall assessment of risk at the enterprise risk management level while also reviewing DISA's detail transactions.

Fraud Controls: Fraud controls are in place by performing assessments. Some examples include:

- Employee-integrity activities to help managers establish a culture conductive to fraud risk management by performing mandatory testing for time and attendance, travel, Property, Plant, & Equipment (PP&E), and Government Purchase Card (GPC), along with areas that management deems is high risk.
- Data analytics activities are performed to help with fraud risk management including data mining and data matching techniques for GPCs.
- Fraud awareness initiatives to increase manager and employees' awareness of potential fraud schemes through training and education requirements performed annually.

Data Quality: The OMB published memorandum 18-16, *Appendix A to OMB Circular A-123, Management of Reporting and Data Integrity Risk*, dated June 6, 2018 that outlines guidance for agencies to develop a Data Quality Plan (DQP) to achieve the objectives of the Data Accountability and Transparency Act (DATA) Act. DISA has established a DQP that provides an emphasis on a structure for data quality on financial data elements, procurement data reporting, data standardization, and data reporting. Quarterly testing has been initiated to review and monitor data integrity.

Payment Integrity: For compliance under the Improper Payments Elimination and Recovery Act of 2010 (IPERA), DISA has an internal control structure in place to mitigate improper payment that could result in payment recovery actions. Testing includes reviews for civilian time and attendance, travel payments, and purchase card transactions. Tests validate that internal controls are in place and functioning as preventative measures to mitigate risks in the execution, obligation and liquidation of funding for transactions. In the event there are overpayments, the DFAS, as DISA's accounting service provider, performs overpayment recapture functions in behalf of DISA. DFAS is including payments on behalf of DISA in their sampling populations for improper payment testing.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)/COVID-19: As of 3rd Q, FY20, DISA received funding for expenses to prevent, prepare for, or respond to the coronavirus pandemic. Funds are required to support increases in telework capability to ensure the DoD can continue its mission. Prior to the pandemic, the DoD estimated 95,000 active duty and civilian personnel teleworked on a regular basis. As of April 2020, DoD estimated 970,000 active duty and civilian personnel were teleworking on a regular basis. DoD/DISA has provisioned circuits globally for COVID-19 support to Combatant Commands, Services, Defense Agencies, and Field Activities increasing capacity by 300 gigabytes per second (approximate increase of 556%). As of May 2020, DoD cybersecurity efforts have blocked over 700,000 suspicious COVID-19 emails in a month's time since the start of the crisis.

The Office of the Undersecretary of Defense (Comptroller) has provided evolving guidance in support of response in CARES Act Funding to mitigate the increased risk of fraud, waste, and abuse related to CARES funding. DISA has initiated a structure to identify and track COVID-19 transactional date and will be incorporating COVID-19 testing in its RMIC Program.

Internal Control Accomplishments: DISA strives to improve in its internal control environment. One example of DISA's accomplishments is in the area of PP&E. The PP&E environment has undergone rigorous audit review and testing. Through years of establishing practices and compliance, demonstrating proper asset accountability, valuation, rights and existence, there are no material or significant deficiencies in reporting DISA's assets for both GF and WCF line items on the financial statements. DISA is one of the few DoD entities that have achieved this accomplishment.

An additional example of DISA's operational effectiveness is in its Business Process Operations. Since the start of COVID-19 outbreak, DISA has never closed. DISA has met critical mission requirements and ensured the Agency fully supported the DoD and warfighter missions during crisis. The support included expansion of virtual private networks (VPN), the purchase of collaboration tools and antivirus software that was deployed to new teleworkers across the Department.

Internal Control Structure

Using the following process, DISA evaluated its system of internal control and maintains sufficient documentation/audit trail to support its evaluation and level of assurance.
DISA manages the RMIC Program through a three-tiered approach. The first tier is supported by the DISA Senior Assessment Team (SAT), which provides guidance and oversight to the RMIC Program. In FY 2020, the DISA Director signed a "Tone-at-the-Top" memo which defines management's leadership and commitment towards an effective RMIC: 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 is supported by a subject matter expert (SME) team. The team coordinates requirements with Office of the Secretary of Defense (OSD) Comptroller regarding the RMIC 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 December 2019 and conducted additional workshops in January 2020. The RMIC team compiles assessable unit AU submissions for the Agency's Statement of Assurance, communicates OSD requirements to leadership, facilitates information sharing between AUMs, and consolidates results.

Identification of Material Assessable Units

The third tier is supported by the AUMs who manage at the program/directorate level within the organization. For this 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 (DDC), Defense Spectrum Organization (DSO), IG, JFHQ-DODIN, JSP, OC, PSD, RME, White House Communications Agency (WHCA), and WSD. Each AU is led by at least one member of the Senior Executive Service (SES) or military flag officer, and carries a distinct mission within DISA, which in turn causes the AU to have unique operational risks that require evaluation.

Identifying Key Controls

Mandatory Testing for all organizations is required to identify the functions performed within their area in addition to the required testing areas of Defense Travel System (DTS), Time and Attendance, and PP&E, to identify the level of process documentation available, and determine the associated risk of those functions. Additionally, the AUM is responsible for identifying and documenting the key controls within their AU in accordance with DoD Instruction 5010.40. The OCFO documents processes and key controls for all ICOR-FR functions through detailed cycle memoranda and narratives. Each AUM documented its key processes and risk on Mission Processes. The OCFO RMIC team advised the AUMs to test, at a minimum, those key processes that were self-identified as *high risk*, as well as Safety, Security (if applicable) and the required testing areas.

Internal Controls over Reporting - Financial Systems

As of the beginning of FY2019, the implementation of Enterprise Resource Planning (ERP) approved systems resolved compliance issues associated with the legacy systems. Some key indicators for underlying sound internal controls include 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. 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. These factors are key indicators of FFMIA compliance.

Additionally, DISA provides application hosting services for the Department's service providers (Defense Finance and Accounting Service; Defense Logistics Agency; Defense Contract Management Agency; Defense Human Resource Activity (DHRA); Military Services, and Other Defense Organizations). As a result, DISA is responsible for most of the information technology (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) 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 aggressively worked the corrective action plans for these 27 findings and completed these by 30 August 2019. As a result, in FY20, DISA once again, received an unmodified opinion on Hosting Services.

Internal Controls over Reporting - Financial Reporting

The OCFO documented end-to-end business processes and identified key internal control activities supporting key business processes for ICOR-FR. 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 (GF)
- Expense (GF)
- Data Quality Plan Testing
- Trial Balance Year-End/Beginning Balance Roll Forward (GF, WCF)
- PP&E Fort George G. Meade Site (GF)
- Eliminations (Trading Partner Data)

- Dormant Account Review Quarterly (DAR-Q)
- Departed and Active User Access Controls for Defense Cash Accountability System (DCAS), Defense Civilian Personnel Data System (DCPDS), Defense Civilian Pay System (DCPS), DDRS-AFS, (DDRS-B, Defense Property Accountability System (DPAS), DTS, and Wide Area Work Flow (WAWF).

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

In 2020, Financial Improvement and Audit Readiness (FIAR) led Department-wide discussions regarding SSAE 18s and the impact to component financial statements. DISA identified 231 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 231 identified CUECs and determined our level of risk, 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.

The following table provides a summary of DISA's approach to the FY 2020 internal control evaluation along with the results.

Summary of Management's Approach to Internal Control Evaluation

Reporting Entity/Component Name: Defense Information Systems Agency

Summary of Component Mission: 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.

List of all Component Organizations:

- Chief Financial Officer/Comptroller (OCFO)
- Component and Acquisition Executive (CAE)
- Operations & Infrastructure Center (OPIC)
- Digital Capabilities and Security Center (DCSC)
- Chief of Staff (DDC)
- Inspector General (IG)
- Joint Force Headquarters DODIN (JFHQ-DODIN)
- Joint Service Provider (JSP)
- Hosting and Compute Center (HACC)
- White House Situation Room (WHSR)
- Procurement Services Directorate (PSD)
- Enterprise Integration and Innovation Center (EIIC)
- Operations & Infrastructure Center (OPIC)
- White House Communications Agency (WHCA)
- Workforce Services and Development Directorate (WSD)

List of all Component material AUs related to ICOR

- Chief Financial Officer/Comptroller (OCFO)
- Hosting and Compute Center (HACC)
- Procurement Services Directorate (PSD)

Summary of Internal Control Evaluation Approach: DISA's approach to internal controls extends to all responsibilities and activities undertaken within DISA. Adherence of RMIC Program internal controls is not only the responsibility of Management, but every DISA employee. In addition to compliance with applicable laws and regulations, internal controls are embedded in DISA's day to day processes. Internal controls have been evaluated in a top down and bottom-up approach resulting in reasonable assurance that financial reporting, operations, and systems are operating effectively.

Overall Assessment of a System 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
P. O. BOX 549
FORT MEADE, MARYLAND 20755-0549

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2020

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 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." Based on the results of the assessment, DISA can provide reasonable assurance, except for two self-reported material weaknesses (MWs) in FY20, reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2020. In FY19, there were nine material weaknesses related to Fund Balance with Treasury and four material weaknesses related to aged transactions. Significant progress has been made in FY20; however, these MWs have not been "officially" approved for closure by DISA's Independent Public Audit firm in the FY20 audit.

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 FMFIA. The *"Summary of Management's Approach to Internal Control Evaluation"* 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 September 30, 2020**.**

DISA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A- 123, Appendix A. The *"Summary of Management's Approach to Internal Control Evaluation"* 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 two MWs (General Fund (GF) unmatched disbursements and GF dormant obligations) reported in the *"Significant Deficiencies and Material Weaknesses Template"* that internal controls over reporting (including internal and external reporting) as of September 30, 2020), and compliance are operating effectively as of September 30, 2020.

DISA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The *"Summary of Management's Approach to Internal Control Evaluation"* section provides specific information on how DISA conducted this assessment. Based on the results of this assessment, DISA can provide reasonable assurance 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 September 30, 2020.

DISA has assessed entity-level controls, including fraud controls in accordance with the Green Book, OMB Circular No. A-123, 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 September 30, 2020.

If there are any questions regarding this Statement of Assurance for FY 2020, my point of contact is Mr. Richard (Greg) Swonger at richard.g.swonger.civ@mail.mil or (614) 692- 8596.

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NANCY A. NORTON
Vice Admiral, USN
Director

In addition to FMFIA, DISA reports its compliance with the Federal Financial Management Improvement Act (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 2020, 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 2020 audit.

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

Financial Management Systems Framework, Goals, and Strategies

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

During FY 2020, DISA continued to operate and enhance both of its accounting systems: the Defense Agencies Initiative (DAI), which is used for GF operations, and the FAMIS, which supports the full breadth of DISA's WCF lines of business. In addition to the two 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.
- A 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.’ As a result of DISA’s experience using its newly modernized/compliant accounting systems for the previous two years, its accounting operations have stabilized. Accordingly, it is now taking advantage of its new capabilities to improve accounting processes and audit readiness, and to set the course for further financial modernization efforts across its business ecosystem. This includes identifying and assessing opportunities to sunset older legacy supporting systems by consolidating and/or migrating functionality to more modern and flexible technologies and architectures.

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 Defense Information Systems Network (DISN), and the Defense IT Contracting Organization (DITCO). The DISA Data Centers routinely see workload increases – this trend will increase as major new initiatives begin to fully impact the Department. As part of the Department's transition to the JIE, DISA Data Centers have been identified as Continental United States (CONUS) Core Data Centers (CDCs).

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

- Accelerated implementation of MPLS 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 feet; 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; and 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);

- The establishment of an impact level 5 cloud based collaboration and productivity environment for Fourth Estate Agencies and Combatant Commands;

- The enterprise-wide roll-out of a Cloud Based Internet Isolation (CBII) capability that isolates malicious code and content from DoD networks.

DISA has implemented a management concept for its Core Data Centers called the "Ecosystem". This model aligned like-functions across a single computing enterprise and established a unified computing structure operating under a single command - one large virtual data center. The Ecosystem has continued to prioritize excellence in service delivery, process efficiency, and standardization for tools and processes. Ultimately, the shift to the Ecosystem model is fulfilling the goal of providing excellence in IT service delivery to our mission partners through the provision of cutting-edge computing solutions and a flexible and adaptable infrastructure. The Ecosystem is in the process of realigning personnel to reside in only eight DISA data centers, three of which will be minimally manned and 100 percent remotely managed. These optimization efforts are projected to yield a savings of $695 million over ten years.

6. Limitations of the Financial Statements

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

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

Defense Information Systems Agency
General Fund

Principal Statements
4th Quarter Fiscal Year 2020, ending September 30, 2020

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2020 and 2019
($ in thousands)

Figure 10-Balance Sheet

	2020	2019
Intragovernmental assets:		
Fund Balance with Treasury (Note 3)	$ 3,136,735	$ 2,960,711
Accounts receivable, Net (Note 6)	49,966	69,666
Other Assets (Note 10)	1,075	-
Total Intragovernmental assets	3,187,776	3,030,377
Other than intragovernmental assets:		
Accounts receivable, net (Note 6)	577	298
General property, plant and equipment, net (Note 4)	406,651	724,070
Other Assets (Note 10)	22	21
Total Assets	$ 3,595,026	$ 3,754,766
Stewardship PP&E, (Note 9)		
Liabilities (Note 11)		
Intragovernmental liabilities:		
Accounts payable	$ 444,294	$ 199,629
Other Liabilities (Notes 15 and 17)	5,362	4,300
Total intragovernmental liabilities	449,656	203,929
Other than intragovernmental liabilities:		
Accounts payable	(110,299)	42,038
Military Retirement and Other Federal Employment Benefits (Note 13)	4,705	5,703
Other Liabilities (Notes 15 and 17)	73,115	62,439
Total liabilities	417,177	314,109
Commitments and contingencies (Note 9)		
Net Position:		
Unexpended Appropriations – Other Funds	2,791,350	2,710,920
Cumulative Results from Operations – Other Funds	386,499	729,737
Total net position	3,177,849	3,440,657
Total liabilities and net position	$ 3,595,026	$ 3,754,766

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

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2020 and 2019
($ in thousands)

Figure 11-Statement of Net Cost

Gross Program Costs	**2020**	**2019**
Gross Costs	$ 3,851,576	$ 3,428,826
Less: Earned Revenue	(174,355)	(227,239)
Net Cost before Losses/(Gains) from Actuarial Assumption for Military Retirement Benefits	3,677,221	3,201,587
Net Program Costs Including Assumption Changes	3,677,221	3,201,587
Net Costs of Operations	$ 3,677,221	$ 3,201,587

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

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2020 and 2019
($ in thousands)

Figure 12-Statement of Changes in Net Position

	2020	2019
Unexpended Appropriations:		
Beginning Balances (Includes Funds from Dedicated Collections-See Note 18)	$ 2,710,920	$ 2,699,274
Appropriations received	3, 566,859	3,217,389
Appropriations transferred-in/out	224,578	109,954
Other Adjustments (+/-)	(24,376)	(74,973)
Appropriations used	(3,686,631)	(3,240,724)
Total Budgetary Financing Sources (Includes funds from Dedicated Collections-See Note 18)	80,430	11,646
Total Unexpended Appropriations	2,791,350	2,710,920
CUMULATIVE RESULTS OF OPERATIONS		
Beginning balances, as adjusted	729,737	538,024
Other adjustments (+/-)	(28,690)	(13,799)
Appropriations used	3,686,631	3,240,724
Transfers in/out without reimbursement	(2,020)	(216)
Imputed financing from costs absorbed by others	12	(12)
Other Financing Sources:		
Transfers in/out without reimbursement	(573,675)	(62,322)
Imputed financing from costs absorbed by others	251,726	228,926
Other	(1)	1
Total Financing Sources (Includes Funds from Dedicated collections (Note 18)	3,333,983	3,393,300
Net Cost of Operations (Includes Funds from Dedicated collections (Note 18)	3,677,221	3,201,587
Net Change	(343,238)	191,713
Cumulative Results of Operations (Includes Funds from Dedicated collections (Note 18)	386,499	729,737
Net Position	$ 3,177,849	$ 3,440,657

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

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2020 and 2019
($ in thousands)

Figure 13-Statement of Budgetary Resources

	2020	2019
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 602,735	$ 750,988
Appropriations (discretionary and mandatory)	3,789,278	3,294,808
Spending Authority from offsetting collections	189,792	218,667
Total Budgetary Resources	4,581,805	4,264,463
Status of Budgetary Resources		
New obligations and upward adjustments (total)	4,161,717	3,741,054
Apportioned, unexpired accounts	283,265	417,213
Unexpired unobligated balance, end of year	283,265	417,213
Expired unobligated balance, end of year	136,823	106,196
Unobligated balance, end of year (total)	420,088	523,409
Total Budgetary Resources	4,581,805	4,264,463
Outlays, Net (Note 38)		
Outlays, net (total) (discretionary and mandatory)	3,560,326	3,262,180
Agency outlays, net (discretionary and mandatory)	$ 3,560,326	$ 3,262,180

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

DEFENSE INFORMATION SYSTEMS AGENCY
GENERAL FUND

Notes to the Principal Statements

4th Quarter Fiscal Year 2020, ending September 30, 2020

Note 1. Summary of Significant Accounting Policies

The Defense Information Systems Agency (DISA), a Combat Support Agency within the Department of Defense (DoD), is a "Component Reporting Entity" (as defined by SFFAS 47) of, and consolidated into the financial statements of the DoD.

The DoD includes the Office of the Secretary of Defense (OSD), Joint Chiefs of Staff (JCS), DoD Office of the Inspector General (DoD OIG), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force (of which the Space Force is a component).

The 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 implements the Secretary of Defense's Defense Strategic Guidance (DSG) and reflects the DoD Chief Information Officer's (CIO) Capability Planning Guidance (CPG).

Using the definitions and Appendix B Flowchart contained in SFFAS 47, DISA GF has determined that there are not any other consolidation or disclosure entities or related transactions that are required to be disclosed within these notes.

Mission of Reporting Entity

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

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

The DISA current mission statement 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."

Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the DISA GF, as required by the Chief Financial Officers Act of 1990, as amended and expanded by the Government Management Reform Act of 1994 and other applicable legislation. To the extent possible, the financial statements have been prepared from the accounting records of DISA in accordance with the formats prescribed by Office of Management and Budget *(OMB) Circular No. A-136, Financial Reporting Requirements*, and in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The financial statements account for all resources for which DISA is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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

In accordance with FASAB Statement of Federal Financial Accounting Standards *(SFFAS) 47: Reporting Entity*, in Note 26, *Disclosure Entities and Related Parties,* the DISA GF does not have relationships with DoD-sponsored Federally Funded Research and Development Centers and DoD Nonappropriated Fund Instrumentalities.

Basis of Accounting

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

The DISA GF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the DoD Components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the DoD Components; therefore, DoD intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

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

The DoD is evaluating the effects that will result from adopting the below pronouncements to the FASAB Handbook of Accounting Standards and Other Pronouncements, as Amended. These pronouncements are expected to have an impact on the financial statements; however, the Department is currently unable to determine the impact of adopting the below pronouncements.

1) *SFFAS 48: Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. Issued on: January 27, 2016. Effective Date: For periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. The Department has valued some of its I&RP using Deemed Cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with *SFFAS 3* are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

2) *SFFAS 50: Establishing Opening Balances for General Property, Plant, and Equipment*. Issued on: August 4, 2016. Effective Date: For periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by SFFAS 50. The Department has valued some of its GPPE using Deemed Cost methodologies as described in SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with SFFAS 6 are not yet fully implemented.

3) *SFFAS 53: Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued on: October 27, 2017: Effective Date: reporting periods beginning after September 30, 2018.

4) *SFFAS 54: Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment:* Issued Date: April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19, 2020. Early adoption is not permitted.

5) *SFFAS 55, Omnibus Amendments*: Issued September 27, 2019; Effective dates vary based on paragraph number. Early adoption is not permitted.

6) *Interpretation 9, Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019.

7) *Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables:* Issued February 20, 2020; Effective upon issuance.

The DoD has not recorded all transactions consistent with GAAP because of limitations of certain systems and resource constraints. The DISA GF as a DoD entity continues along with the rest of DoD to transition to systems that can produce GAAP compliant financial statements. The following known transactions were not recorded consistent with GAAP and are believed to be materially misstated in the financial statements. Transactions not recorded consistent with GAAP are listed (not an exhaustive list).

1) Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.

2) Transactions that should have been recorded in prior years, were recorded in the current year.

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. Additionally, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity.

Accounting for DISA Intra-Entity, Intragovernmental, and Intergovernmental Activities
The Treasury Financial Manual, Volume I, Part 2, Chapter 4700, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. 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

Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. The DoD is implementing replacement systems and a standard financial information structure that will incorporating the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances**.**

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

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

Imputed financing represents the cost paid on behalf of one federal entity by another federal entity without reimbursement and are recorded and reported when goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed revenue in the Statement of Changes in Net Position. In accordance with SFFAS 55 (which rescinded SFFAS 4, SFFAS 30, an Interpretation of Federal Financial Accounting Standards (Interpretation 6), the DoD recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act; (3) losses in litigation proceedings; and (4) real property owned by other federal entities but used/occupied by another 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 ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

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

Non-Entity Assets

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

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

Fund Balance with Treasury

The FBwT represents the aggregate amount of the DISA GF's available budget spending authority available to pay current liabilities and finance future authorized purchases. The DISA GF's monetary resources of collections and disbursements are maintained in Department of the Treasury (*Treasury*) accounts. The disbursing offices of the Defense Finance and Accounting Service (*DFAS*), the Military Departments, the U.S. Army Corps of Engineers (*USACE*), and the Department of State's financial service centers process the majority of the Department of Defense's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

FBwT is an asset of a component entity and a liability of the General Fund. Similarly, investments in Government securities held by dedicated collections accounts are assets of the reporting entity responsible for the dedicated collections and liabilities of the General Fund. In both cases, the amounts represent commitments by the Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole.

When the reporting entity seeks to use FBwT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus).

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.

Fund Balance with Treasury and the accompanying liability for deposit funds are not reported by individual Other Defense Organizations General Fund, but rather reported in the consolidated Other Defense Organizations General Fund. As such, the DISA GF does not report deposit fund balances on its financial statements.

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

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

Investments and Related Interest
The DISA GF does not invest in or report investments in U.S. Treasury Securities.

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

As of February 2020, Federal Accounting Standards Advisory Board Technical Bulletin 2020-1 has mandated an intergovernmental allowance for loss on receivables account. The DISA is working closely with DFAS for determining and reporting an allowance for loss on intragovernmental accounts receivable.

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

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

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

General Property, Plant and Equipment
The DISA GF capitalizes all Property, Plant and Equipment (PP&E) used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other category, and are generally recorded at the estimated historical costs. When applicable, the DoD will continue to adopt *SFFAS 50*, which permits alternative methods in establishing opening balances effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods, from *SFFAS 50*, based on historical records such as expenditure data, contracts, budget information, and engineering documentation.

The DISA GF 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 GF 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 $250 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 GF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. Leasehold improvements are amortized over the lesser of their useful life, generally five years, or the unexpired lease term.

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 GF 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 DISA GF provides government property to contractors to complete contract work, for which the contractors assume responsibility for asset control and accountability. The DISA GF 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 the DISA GF's balance sheet in accordance with GAAP.

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

For additional information, see Note 9, *General Property, Plant and Equipment*.

Other Assets

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

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

Leases

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

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

For additional information, see Note 16, *Leases.*

Liabilities

The DISA GF liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the DISA 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*.

Environmental and Disposal Liabilities

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

Other Liabilities

The DISA GF other liabilities may include:

Advances from Others which represent amounts received in advance for goods or services that have not been fully rendered by the Department.

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30.

Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

The Federal Employees Compensation Act (*FECA*) (provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (*DOL*), which pays valid claims and subsequently seeks reimbursement from the DISA 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 DISA. 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.
SFFAS 51, *Insurance Programs*, established accounting and financial reporting standards for insurance programs. Office of Personnel Management (*OPM*) administers insurance benefit programs available for coverage to the DISA'S civilian employees. The programs are available to Civilian employees but employees do not have to participate. These programs include life, health, and long term care insurance. The life insurance program, Federal Employee Group Life Insurance (*FEGLI*) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (*FEHB*) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (*FEDVIP*). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The DISA 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.

TRICARE is a worldwide health care program that provides coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with a network and non-network TRICARE authorized civilian health care professionals, institutions, pharmacies, and suppliers to provide access to health care services. TRICARE offers multiple health care plans. The Defense Health Program serves as the program manager for TRICARE, providing oversight, payment, and management of private sector care administered by contracted claims processors.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where the DISA is acting on behalf of another federal entity.

Other Liabilities primarily consists of unemployment compensation liabilities.

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

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

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

DISA does not have Environmental Contingencies. The legal environmental cases are recorded as legal contingencies.
For additional information, see Note 17, *Commitments and Contingencies*.

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

The DoD applies *SFFAS 33*, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the DoD Statement of Net Cost. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits* and Note 19, *Disclosures Related to the Statement of Net Cost*, for additional information.

As an employer entity, the DISA GF recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other postemployment benefit plans (plans) including health and life insurance plans. However, as the administering entity, OPM is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, the DISA GF 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.

Revenues and Other Financing Sources
As a component of the Government-wide reporting entity, the DISA GF is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that result from the budget process are generally the same transactions reflected in agency and the Government-wide financial reports.

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

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

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

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

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

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

In accordance with SFFAS Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," the DISA recognizes non-exchange 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 non-exchange 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.

Deferred revenue is recorded when the DoD receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned.

The DoD does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost. The U.S. has cost sharing agreements with countries, through mutual or reciprocal defense agreements, where U.S. troops are stationed or where the U.S. Fleet is in a port.

Recognition of Expenses

In accordance with DoD FMR Volume 4, Chapter 17, Paragraph 170401, the DISA 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, regardless of when invoices are received. Estimates are made for major items such as payroll expenses and accounts payable.

Treaties for Use of Foreign Bases

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

Use of Estimates

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

Parent-Child Reporting

The DISA GF is a party to allocation transfers with other federal agencies as a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity.

The DISA receives allocation transfers from the Defense Acquisition University (DAU).

Transactions with Foreign Governments and International Organizations

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

The DoD is implementing the administration's foreign policy objectives under the provisions of the *Arms Export Control Act of 1976* by facilitating the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

Fiduciary Activities

The DISA GF does not have fiduciary activities.

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.

Note 2. Non-Entity Assets

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

Figure 14- Non-Entity Assets

(thousands)

	2020	2019
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	-	-
C. Other Assets	-	-
D. Total Non-Federal Assets	$ -	$ -
3. Total Non-Entity Assets	$ -	$ -
4. Total Entity Assets	$ 3,595,026	$ 3,754,766
5. Total Assets	$ 3,595,026	$ 3,754,766

Note 3. Fund Balance with Treasury

COVID-19 Impacts:
Please see Note 29

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

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

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

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

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

Non-budgetary FBWT includes accounts without budgetary authority, such as deposit funds unavailable receipt accounts, clearing accounts and nonentity FBWT.

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

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities.

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

Figure 15- Fund Balance with Treasury

(thousands)

		2020		2019
1. Unobligated Balance:				
A. Available	$	283,266	$	417,212
B. Unavailable		136,823		106,196
Total Unobligated Balance	$	420,089	$	523,408
2. Obligated Balance not yet Disbursed	$	2,900,045	$	2,641,121
3. Non-Budgetary FBWT:				
A. Clearing accounts	$	-	$	-
B. Deposit funds		-		-
C. Non-entity and other		-		-
Total Non-Budgetary FBWT	$	-	$	-
4. Non-FBWT Budgetary Accounts:				
A. Investments - Treasury Securities	$	-	$	-
B. Unfilled Customer Orders without Advance		(127,758)		(131,567)
C. Contract Authority		-		-
D. Borrowing Authority		-		-
E. Receivables and Other		(55,641)		(72,251)
Total Non-FBWT Budgetary Accounts	$	(183,399)	$	(203,818)
5. Total FBWT	$	3,136,735	$	2,960,711

Note 6. Accounts Receivable, Net

COVID-19 Impacts:
Please see Note 29

Accounts receivable represent DISA GF's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700. The allowance for uncollectible accounts receivable 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.

As of February 2020, an intergovernmental allowance for loss on receivables account has been mandated by Federal Accounting Standards Advisory Board Technical Bulletin 2020-1. The implementation methodology of this Bulletin to establish intragovernmental allowance for loss on receivables is based upon collection and averaging 36 months of aged intragovernmental receivables, which is in process.

Figure 16- Accounts Receivable

(thousand)

DISA GF 2020	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 49,966	$ 0	$ 49,966
Non-Federal Receivables (From the Public)	577	0	577
Total Accounts Receivable	$ 50,543	$ 0	$ 50,543

DISA GF 2019	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 69,666	$ 0	$ 69,666
Non-Federal Receivables (From the Public)	298	0	298
Total Accounts Receivable	$ 69,964	$ 0	$ 69,964

Note 9. General PP&E, Net

COVID-19 Impacts:
Please see Note 29

The DISA GF General PP&E comprises leasehold improvements, equipment, and software with a net book value (NBV) of $406.7 million.

There are no restrictions on the use or convertibility of DISA GF's property and equipment, and all values are based on acquisition cost. The DISA GF does not possess any Stewardship PP&E (Federal Mission PP&E, Heritage Assets, or Stewardship Land). The implementation of Statement of Federal Financial Accounting Standard (SFFAS) No. 6 did not result in any changes in asset values and was accomplished through the application of guidance contained in DoD FMR Volume 4, Chapter 6, paragraphs 0601 and 0602.

The following table provides a summary of the activity for the current fiscal year.

Figure 17- General PP&E

(thousands)

	2020	2019
1. General PP&E, Net beginning of year	$ 724,070	$ N/A
2. Capitalized acquisitions	$ 382,751	N/A
3. Dispositions	$ -	N/A
4. Revaluations (+/-)	$ (597,073)	N/A
5. Depreciations expense	$ (103,097)	N/A
6. Transfers in/(out) without reimbursement	$ -	N/A
7. General PP&E, Net end of year	**$ 406,651**	**$ N/A**

The charts below provide the depreciation method, service life, acquisition value, depreciation, and net book value for the different categories in a comparative view.

Figure 18- Major General PP&E Classes

(thousands)

DISA GF 2020 Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Buildings, Structures, and Facilities	S/L	35,40, or 45*	$ 0	$ 0	$ 0
Leasehold Improvements	S/L	Lease term	74,717	(42,671)	32,046
Software	S/L	2-5 or 10	30,797	(12,909)	17,888
General Equipment	S/L	Various**	423,751	(302,103)	121,648
Construction-in-Progress	N/A	N/A	235,069	N/A	235,069
Total General PP&E			$ 764,334	$ (357,683)	$ 406,651

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

Note 10. Other Assets

COVID-19 Impacts:
Please see Note 29

The DISA GF's other assets consists of minimal amounts for advances and prepayments.

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 19- Other Assets

(thousands)

		2020		2019
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	1,075	$	-
B. Other Assets		-		-
C. Total Intragovernmental Other Assets	$	1,075	$	-
2. Non-Federal Other Assets				
A. Outstanding Contract Financing Payments	$	-	$	-
B. Advances and Prepayments		22		21
C. Other Assets (With the Public)		-		-
D. Total Non-Federal Other Assets	$	22	$	21
3. Total Other Assets	$	1,097	$	21

Note 11. Liabilities Not Covered by Budgetary Resources

COVID-19 Impacts:
Please see Note 29

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

Intragovernmental Liabilities “Other” consists of $1.2 million of unfunded FECA liabilities related to bills from the DOL that are not funded until the billings are received.

Non-Federal Liabilities “Military Retirement and Other Federal Employment Benefits” consists of $4.7 million in various employee actuarial FECA liabilities not due and payable during the current fiscal year. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details. Non-Federal “Other Liabilities” is an unfunded annual leave liability for $44 million. This balance reflects earned amounts of annual leave to be paid from future appropriations.

Figure 20- Liabilities Not Covered by Budgetary Resources

(thousands)

	2020	2019
1. Intragovernmental Liabilities		
A. Accounts Payable	$ -	$ -
B. Debt	-	-
C. Other	1,154	1,320
D. Total Intragovernmental Liabilities	$ 1,154	$ 1,320
2. Non-Federal Liabilities		
A. Accounts Payable	$ -	$ -
B. Military Retirement and Other Federal Employment Benefits	4,705	5,705
D. Environmental and Disposal Liabilities	-	-
C. Other Liabilities	43,988	34,358
D. Total Non-Federal Liabilities	$ 48,693	$ 40,063
3. Total Liabilities Not Covered by Budgetary Resources	$ 49,847	$ 41,383
4. Total Liabilities Covered by Budgetary Resources	$ 367,330	$ 272,726
5. Total Liabilities Not Requiring Budgetary Resources	$ -	$ -
6. Total Liabilities	$ 417,177	$ 314,109

Note 13. Military Retirement and Other Federal Employment Benefits

COVID-19 Impacts:
Please see Note 29

Actuarial Cost Method Used and Assumptions:

The Department of Labor (DOL) estimates actuarial liability only at the end of each fiscal year. In FY 2020, the methodology for billable projected liabilities was revised to include, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2019 methodology used a traditional paid loss development method with the FECA Case Reserve Model run concurrently to, among other things, test the validity of the FECA Case Reserve Model.

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 CPI-Ms) were applied to the calculation of projected future benefits.

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.

The FY 2020 and FY 2019 methodologies for averaging the COLA rates used OMB-provided rates for the current and prior four years; the FY 2020 methodology also considered updated information for the current year that was provided by program staff. The FY 2020 and FY 2019 methodologies for averaging the CPI-M rates used OMB-provided rates for the current and prior four years; the FY 2020 methodology also considered updated information for the current year that program staff obtained from the Bureau of Labor Statistics public releases for CPI.

The actual rates for these factors for the charge back year (CBY) 2020 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPI-Ms used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2020	N/A	N/A
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025 and thereafter	2.30%	3.94%

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 2020 and FY 2019, respectively. Interest rate assumptions utilized for FY 2020 discounting were as follows:

Discount Rates

For wage benefits:
2.414% in year 1 and years thereafter;
For medical benefits:
2.303% in year 1 and years thereafter.

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

The DOL Office of Inspector General issued in July 2020 a report that found that most OWCP programs are experiencing or expecting delays and resource management issues as a result of increasing claims and social distancing mandates brought on by the COVID-19 pandemic. In general, there have been downward trends in the number of open claims and closed claims and payments; based on the average of the prior five chargeback CBYs, the number of open claims has decreased about 7 percent, the number of closed claims has decreased about 16 percent, and payments have decreased an estimated 19 percent. Federal employees who contract COVID-19 while in the performance of their federal duties are entitled to workers' compensation coverage pursuant to FECA, which could affect future claims and payments.

Expense Components

For FY 2020, the only expense component pertaining to other actuarial benefits for DISA GF is the FECA expense. The DOL provides the expense data to DISA. The staffing ratio data from DISA Headquarters determines the allocation of the expense to DISA GF and DISA WCF.

The DOL provided an estimate for DISA's future workers' compensation benefits of $9.1 million. The DISA distributed $4.7 million to DISA GF and $4.4 million to DISA WCF based upon staffing ratios. The DISA made the distribution using DISA's normal methodology of apportioning FECA liability to GF and WCF based upon relative staffing levels. The DISA used the same apportionment methodology in FY 2019 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 for DISA GF decreased $998.7 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 21- Military Retirement and Other Federal Employment Benefits

(thousands)

DISA GF 2020	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 4,705	$ 0	$ 4,705
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	$ 4,705	$ 0	$ 4,705
3. Total Military Retirement and Other Federal Employment Benefits	$ 4,705	$ 0	$ 4,705

DISA GF 2019	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 5,703	$ 0	$ 5,703
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	0	0	0
E. Total Other Benefits	$ 5,703	$ 0	$ 5,703
3. Total Military Retirement and Other Federal Employment Benefits	$ 5,703	$ 0	$ 5,703

Note 15. Other Liabilities

COVID-19 Impacts:
Please see Note 29

DISA GF Intragovernmental Other Liabilities consist of:

- FECA Reimbursement to DOL - $1.2 million: Federal Employee's Compensation Act FECA Reimbursement to the Department of Labor represents liabilities for billed amounts payable in FY 2019 and FY 2020 unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability. The FECA program provides benefits to employees injured on the job and their beneficiaries. The program is administered by DOL, which pays claim amounts and then seeks reimbursement from DISA GF. The amount owed by DISA GF for FECA liabilities has two components. The first component is the reimbursement due to the DOL for amounts actually paid on behalf of the DISA GF. The second component is an actuarial liability, which is an estimate of future payments by DOL. The actuarial liability is based on historical patterns, assessed level of risk, and medical and wage inflation factors. Both liabilities are unfunded until budgetary resources become available for reimbursement.

- Employer Contributions and Payroll Taxes Payable – $4.2 million: The DISA GF pays portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments. The DISA GF employees are generally covered under the Civil Service Retirement System or Federal Employee Retirement System.

DISA GF Non-Federal Other Liabilities consist of:

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

- Advances from Others - $7.3 million: This liability represents liabilities for collections received to cover future expenses or acquisition of assets the DISA GF incurs or acquires on behalf of another organization. Further, is represents the remaining amount of customer advance billings. These customer advances will be liquidated in future periods as the result of filling customer orders/earned revenue based on the completion of contract task orders and other direct costs being applied to the specific customer advance accounts under Major Range and Test Facility Base guidelines, polices, and regulation.

- Accrued Unfunded Annual Leave - $44.0 million: Unused leave is an unfunded liability that will be paid from future resources when taken or when the employee retires or separates. The amount reported at the end of the period reflects current pay rates. Sick leave is not a vested benefit and is expensed when taken.

- Employer Contribution and Payroll Taxes - $6.5 million: The non-federal Employer Contribution and Payroll Taxes is comprised of the DISA GF employer contributions to the Thrift Savings Plan (TSP).

The DISA GF's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (OPM). DISA GF does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

Figure 22- Other Liabilities

(thousands)

DISA GF 2020	Current Liability	Non-Current Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 593	$ 561	$ 1,154
Employer Contribution and Payroll Taxes Payable	4,208	0	4,208
Total Intragovernmental	4,801	561	5,362
Non-Federal			
Accrued Funded Payroll and Benefits	15,293	0	15,293
Advances from Others	7,314	0	7,314
Accrued Unfunded Annual Leave	43,989	0	43,989
Employer Contribution and Payroll Taxes Payable	6,519	0	6,519
Total Non-Federal Other Liabilities	73,115	0	73,115
Total Other Liabilities	$ 77,916	$ 561	$ 78,477

DISA GF 2019	Current Liability	Non-Current Liability	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 557	$ 763	$ 1,320
Employer Contribution and Payroll Taxes Payable	2,980	0	2,980
Total Intragovernmental	3,537	763	4,300
Non-Federal			
Accrued Funded Payroll and Benefits	15,337	0	15,337
Advances from Others	8,264	0	8,264
Accrued Unfunded Annual Leave	34,358	0	34,358
Employer Contribution and Payroll Taxes Payable	4,480	0	4,480
Total Non-Federal Other Liabilities	62,439	0	62,439
Total Other Liabilities	$ 65,976	$ 763	$ 66,739

Note 16. Leases

Assets Under Capital Lease:

The DISA GF does not have any Assets Under Capital Lease.

Future Payments Due for Leases:

The DISA GF has non-cancelable operating leases for office equipment, vehicles, land, buildings and commercial space. DISA does not receive copies of leases, but obtains individual Occupancy Agreements and is billed a cost based on the space DISA is occupying. The largest portion of these costs are reimbursements to the Pentagon Reservation Maintenance Fund. Occupancy Agreements are also held with Washington Headquarters Service or the General Services Administration based upon the space DISA GF is occupying. Prior year tables for future minimum lease payments are not presented. Future lease payments due as of September 30, 2020, were as follows:

Figure 23- Future Payments Due for Non-Cancelable Operating Leases

(thousands)

DISA GF 2020	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2021	45,866	456	0	46,322
2022	47,477	0	0	47,477
2023	49,184	0	0	49,184
2024	50,949	0	0	50,949
2025	52,779	0	0	52,779
After 5 Years	111,319	0	0	111,319
Total Federal Future Lease Payments	$ 357,574	$ 456	$ 0	$ 358,030
2. Non-Federal				

Fiscal Year				
2021	0	168	448	616
2022	0	0	470	470
2023	0	0	494	494
2024	0	0	500	500
2025	0	0	506	506
After 5 Years	0	0	1,068	1,068
Total Non-Federal Future Lease Payments	$ 0	$ 168	$ 3,486	$ 3,654
3. Total Future Lease Payments	$ 357,574	$ 624	$ 3,486	$ 361,684

Note 17. Commitments and Contingencies

COVID-19 Impacts:
Please see Note 29

The DISA GF is a party in various administrative proceedings and legal actions related to contractual based disputes and reviews the Agency Claims report to determine if a liability should be recorded for the reporting period. The DISA GF is not aware of any contingent liabilities for legal actions for FY 2020.

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

COVID-19 Impacts:
Please see Note 29

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of DISA GF supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems capture costs based on appropriations groups as presented in the schedule below. The DoD is in the process of reviewing available data and developing a cost reporting methodology required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SSFAS No. 55, "Amending Inter-Entity Cost Provisions."

The Department implemented SFFAS No. 55 in FY 2018 which rescinded SFFAS No. 30, "Inter-Entity Cost Implementation: Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4."

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

The DISA GF reports exchange revenues for inflows of earned resources. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return.

Exchange revenues arise when DISA GF provides something of value to the public or another Government entity at a price. Pricing policy for exchange revenues are derived by recovering costs.

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

Figure 24- Costs and Exchange Revenue by Major Programs

(thousands)

	2020	2019
Operations, Readiness & Support		
1. Gross Cost	2,802,382	2,457,993
2. Less: Earned Revenue	(132,085)	(176,548)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	$ 2,670,297	$ 2,281,445
Procurement		
1. Gross Cost	652,826	643,922
2. Less: Earned Revenue	(6,477)	(4,689)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	$ 646,349	$ 639,233
Research, Development, Test & Evaluation		
1. Gross Cost	398,011	323,007
2. Less: Earned Revenue	(35,793)	(46,002)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	$ 362,218	$ 277,005
Family Housing & Military Construction		
1. Gross Cost	(1,643)	3,904
2. Less: Earned Revenue	-	-
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	$ (1,643)	$ 3,904
Consolidated		
1. Gross Cost	3,851,576	3,428,826
2. Less: Earned Revenue	(174,355)	(227,239)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
4. Costs Not Assigned to Programs	-	-
5. (Less: Earned Revenues) Not Attributed to Programs	-	-
Total Net Cost	**$ 3,677,221**	**$ 3,201,587**

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

COVID-19 Impacts:
Please see Note 29

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 2020, changes for DISA GF primarily consists of budgetary financing sources for appropriations received, transferred-in/out, and used.

The DISA GF does not have Funds from Dedicated Collections.

Note 21. Disclosures Related to the Statement of Budgetary Resources

COVID-19 Impacts:
Please see Note 29

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

As of September 30, 2020, DISA GF incurred $4.2 billion in obligations, all of which are reimbursable and none of which are exempt from apportionment.

The total unobligated balance available as of September 30, 2020 is $0.3 billion, and represents the cumulative amount of budgetary authority that has been set aside to cover future obligations for the current period.

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

As of September 30, 2020, DISA GF's Net Amount of Budgetary Resources Obligated for Undelivered Orders is $2.5 billion.

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

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

Figure 25- Budgetary Resources Obligate for Undelivered Orders at the End of the Period
(thousands)

	2020	2019
1. Intragovernmental		
A. Unpaid	2,412,358	1,645,723
B. Prepaid/Advanced	-	-
C. Total Intragovernmental	$ 2,412,358	$ 1,645,723
2. Non-Federal		
A. Unpaid	121,994	728,352
B. Prepaid/Advanced	1,097	20
C. Total Non-Federal	$ 123,091	$ 728,372
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 2,535,449	$ 2,374,095

Note 24. Reconciliation of Net Cost of Operations to Budget

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

Figure 26- Reconciliation of the Net Cost of Operations to Net Outlays
(thousands)

DISA GF	Intragov.	Public	Total
Net Cost of Operations (SNC)	$ 2,740,081	$ 937,140	$ 3,677,221
Components of Net Cost That Are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	0	(103,097)	(103,097)
Property, Plant and Equipment Disposal & Revaluation	0	(16,566)	(16,566)
Other	(161)	(6,683)	(6,844)
Increase/(Decrease) in Assets:			
Accounts receivable, net	(16,610)	279	(16,331)
Other Assets	1,075	2	1,077
(Increase)/Decrease in liabilities:			
Accounts Payable	(247,758)	153,286	(94,472)
Salaries and Benefits	(1,227)	(1,996)	(3,223)
Other liabilities	166	(8,631)	(8,465)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(251,726)	0	(251,726)
Total Components of Net Cost Not Part of Net Outlays	$ (516,241)	$ 16,594	$ (499,647)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	252,115	130,636	382,751
Total Components of Net Outlays That Are Not Part of Net Cost:	252,115	130,636	382,751
Total Net Outlays	2,475,955	1,084,370	3,560,325
Agency Outlays, Net, Statement of Budgetary Resources			$ 3,560,325
Unreconciled difference			$ 0

Note 29. COVID-19 Activity

During FY 2020, DISA received funding for expenses to prevent, prepare for, or respond to the coronavirus pandemic. Funds are required to support increases in telework capability to ensure the DoD can continue its mission. Prior to the pandemic, the DoD estimated 95,000 active duty and civilian personnel teleworked on a regular basis. As of April 2020, DoD estimated 970,000 active duty and civilian personnel were teleworking on a regular basis. DoD/DISA has provisioned circuits globally for COVID-19 support to Combatant Commands, Services, Defense Agencies, and Field Activities increasing capacity by 300 gigabytes per second (approximate increase of 556%). As of May 2020, DoD cybersecurity efforts have blocked over 700,000 suspicious COVID-19 emails in a month’s time since the start of the crisis.

The Office of the Undersecretary of Defense (Comptroller) has provided evolving guidance regarding CARES Act Funding to mitigate the increased risk of fraud, waste, and abuse related to CARES funding. DISA has initiated a structure to identify and track COVID-19 transactional data and will be incorporating COVID-19 testing in its RMIC Program.

The DISA GF notes impacted by COVID-19 activities include FBWT (Note 3), accounts receivable (Note 6), general PP&E (Note 9), other assets (Note 10), liabilities not covered by budgetary resources (Note 11), military retirement and other federal employment benefits (Note 13), other liabilities (Note 15), general disclosures related to SNC (Note 19), and disclosures related to the SBR (Note 21).

The following table provides a summary of COVID-19 funding received for DISA GF:

Figure 27-COVID Supplemental Funding Summary

(thousands)

	Original Request	Final Supplemental	Amount Released by OCFO	Commitments	Obligations
Total O&M	$ 71,708	$ 143,898	$ 142,140	$ -	$ 136,976
Total Procurement	1,169.00	1,169.00	1,169.00	-	-
Total RDT&E	529.00	589.00	589.00	-	583.00
Supplemental Total	**$ 73,406**	**$ 145,656**	**$ 143,898**	**$ -**	**$ 137,559**

Figure 28- Round 2 Requirements Funding Summary (pending submission)

(thousands)

	Original Request	Final Supplemental	Amount Released by OCFO	Commitments	Obligations
Total O&M	$ 48,912	$ 37,198	$ 37,198	$ -	$ 40,540
Total Procurement	197,518.00	-	-	-	-
Total RDT&E	38,875.00	-	-	-	-
Round 2 Total	**$ 285,305**	**$ 37,198**	**$ 37,198**	**$ -**	**$ 40,540**

Figure 29- Total COVID Funding Summary

(thousands)

	Original Request	Final Supplemental	Amount Released by OCFO	Commitments	Obligations
Total O&M	$ 120,620	$ 181,096	$ 179,338	$ -	$ 177,516
Total Procurement	198,687.00	1,169.00	1,169.00	-	-
Total RDT&E	39,404.00	589.00	589.00	-	583.00
Grand Total	**$ 358,711**	**$ 182,854**	**$ 181,096**	**$ -**	**$ 178,099**

The following notes do not apply to DISA GF:

Note 4. Cash and Other Monetary Assets

Note 5. Investments and Related Interest

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

Note 8. Inventory and Related Property, Net

Note 12. Debt

Note 14. Environmental and Disposal Liabilities

Note 18. Funds from Dedicated Collections

Note 22. Disclosures Related to Incidental Custodial Collections

Note 23. Fiduciary Activities

Note 25. Public-Private Partnerships

Note 26. Disclosure Entities and Related Parties

Note 27. Security Assistance Accounts

Note 28. Restatements

Note 30: Subsequent Events

Note 31: Reclassification of Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position for Compilation in the U.S. Government-wide Financial Report

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) as supplementary information on its financial statements. In FY 2020, DISA GF has DM&R to report of $16.0 million. This is a change from prior year.

Generally, due to the nature of DISA's business providing IT, Telecommunications and Computing Services in support of combat missions, all required maintenance is funded within the period required to meet performance requirements of DISA missions.

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

As of 4th Quarter 2020, DISA has transferred out all GF real property assets. DISA GF has DM&R related to capitalized general PP&E, non-capitalized or fully depreciated general PP&E. DISA does not have stewardship PP&E or 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.

There have been changes in identification of DM&R that has occurred since the last fiscal year, no deferred maintenance was reported in FY 2019. In FY 2020, DISA GF has further refined its identification of DM&R and is reporting deferred maintenance of $16.0 million for general PP&E. DISA GF will continue to review its process and enhance its identification of deferred maintenance reporting, as needed.

2. **Schedule of Consolidation**

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

Defense Information Systems Agency
General Fund
CONSOLIDATING BALANCE SHEET INFORMATION
As of September 30, 2020

Figure 30- Consolidating Balance Sheet

	O&M	PROC	RDT&E	MILCON	Combined	Intra-Entity Eliminations	FY 2020 Consolidated
ASSETS							
Intragovernmental:							
Fund Balance with Treasury	$ 1,539,529	$ 1,116,311	$ 462,328	$ 18,567	$ 3,136,735	$ -	$ 3,136,735
Accounts Receivable	38,219	6,170	11,252	-	55,641	(5,675)	49,966
Other Assets	1,075	-	-	-	1,075	-	1,075
Total Intragovernmental Assets	$ 1,578,823	$ 1,122,481	$ 473,580	$ 18,567	$ 3,193,451	$ (5,675)	$ 3,187,776
Accounts Receivable, Net	569	-	8	-	577	-	577
General PP&E, Net	16,149	368,648	3,563	18,291	406,651	-	406,651
Other Assets	22	-	-	-	22	-	22
TOTAL ASSETS	**$ 1,595,563**	**$ 1,491,129**	**$ 477,151**	**$ 36,858**	**$ 3,600,701**	**$ (5,675)**	**$ 3,595,026**
LIABILITIES							
Intragovernmental:							
Accounts Payable	$ 283,764	$ 122,312	$ 43,893	$ -	$ 449,969	$ (5,675)	$ 444,294
Other Liabilities	5,362	-	-	-	5,362	-	5,362
Total Intragovernmental Liabilities	$ 289,126	$ 122,312	$ 43,893	$ -	$ 455,331	$ (5,675)	$ 449,656
Non-Federal:							
Accounts Payable	$ (54,711)	$ (46,592)	$ (8,256)	$ (740)	$ (110,299)	$ -	$ (110,299)
Military Retirement and Other Federal Employment Benefits	4,705	-	-	-	4,705	-	4,705
Other Liabilities	67,335	-	5,780	-	73,115	-	73,115
TOTAL LIABILITIES	**$ 306,455**	**$ 75,720**	**$ 41,417**	**$ (740)**	**$ 422,852**	**$ (5,675)**	**$ 417,177**
NET POSITION							
Unexpended Appropriations - Other Funds	1,331,172	1,011,930	428,941	19,308	2,791,350	-	2,791,350
Cumulative Results of Operations - Other Funds	(42,064)	403,479	6,793	18,291	386,499	-	386,499
TOTAL NET POSITION	**$ 1,289,108**	**$ 1,415,409**	**$ 435,734**	**$ 37,598**	**$ 3,177,849**	**$ -**	**$ 3,177,849**
TOTAL LIABILITIES AND NET POSITION	**$ 1,595,563**	**$ 1,491,129**	**$ 477,151**	**$ 36,858**	**$ 3,600,701**	**$ (5,675)**	**$ 3,595,026**

Defense Information Systems Agency
General Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2020
(000)

Figure 31- Combining Statement of Budgetary Resources

	O&M	PROC	RDT&E	MILCON	Combined
Budgetary Resources (discretionary and mandatory):					
Unobligated balance from prior year budget authority, net	$ 148,950	$ 302,704	$ 137,753	$ 13,328	$ 602,735
Appropriations	2,878,480	405,035	505,763	-	3,789,278
Spending Authority from offsetting collections	137,446	4,664	47,682	-	189,792
Total Budgetary Resources	$ 3,164,876	$ 712,403	$ 691,198	$ 13,328	$ 4,581,805
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 3,052,533	$ 530,089	$ 578,169	$ 926	$ 4,161,717
Unobligated balance, end of year:					
Apportioned, unexpired accounts	22,776	165,429	86,852	8,208	283,265
Unexpired unobligated balance, end of year	22,776	165,429	86,852	8,208	283,265
Expired unobligated balance, end of year	89,567	16,885	26,177	4,194	136,823
Unobligated balance, end of year (total)	$ 112,343	$ 182,314	$ 113,029	$ 12,402	$ 420,088
Total Budgetary Resources	$ 3,164,876	$ 712,403	$ 691,198	$ 13,328	$ 4,581,805
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	$ 2,274,902	$ 948,772	$ 328,189	$ 8,463	$ 3,560,326
Agency Outlays, net (discretionary and mandatory	$ 2,274,902	$ 948,772	$ 328,189	$ 8,463	$ 3,560,326

Defense Information Systems Agency
General Fund
CONSOLIDATING STATEMENT OF NET COST
As of September 30, 2020
(000)

Figure 32- Consolidating Statement of Net Cost

PROGRAM COSTS	O&M	PROC	RDT&E	MILCON	Combined	Intra-Entity Eliminations	FY 2020 Consolidated
Gross Costs	$ 2,813,404	$ 652,890	$ 407,122	$ (1,643)	$ 3,871,773	$ (20,197)	$ 3,851,576
Less: Earned Revenue	(134,764)	(6,338)	(53,450)	-	(194,552)	20,197	(174,356)
Net Cost of Operations	**$ 2,678,640**	**$ 646,552**	**$ 353,672**	**$(1,643)**	**$ 3,677,221**	**$ -**	**$ 3,677,221**

Other Information

1. Management Challenges

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

30 October 2020

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 as 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 four continuing issues affecting agency performance:

Telework Challenges

The most notable management and performance challenge facing the Agency is its transition to a maximum telework environment. While the Agency considers the transition a success and the Agency is able to meet its mission objectives, the new environment created communication and performance measurement challenges. First, employees are having a difficult time reproducing in-person collaboration. To improve collaboration, the Agency adopted numerous communication tools; however, employees are still getting proficient and desire a consolidated group of communication tools. Second, telework has exaggerated the challenge of measuring productivity based on time worked and outputs. The majority of the Agency believes work is being done, however it is difficult to show metrics that confirm work levels or establish trends. Sustaining momentum, direction and information flow in the fast changing IT environment while most employees are teleworking is and will continue to be a leadership challenge.

Recruiting, Hiring, and Retention

The lengthy recruitment and hiring processes has resulted in a significant number of unfilled vacancies and a loss of productivity 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) was established as an Agency-wide mechanism to increase employee engagement and communication.

Fourth Estate Network Optimization (4ENO)

DISA is the Department of Defense's (DoD's) Executive Agent for integrating approximately 900 Common Use IT personnel from across 14 Defense Agencies and Field Activities (DAFAs) over the next four years. The Agency's challenges related to 4ENO include communications with the DAFAs over the course of the multi-year transition, cultural integration and trust building, and meeting the additional human resource requirements without a corresponding increase in support personnel.

Government Furnished Equipment (GFE)

Accurate and complete accountability of all government furnished equipment in the possession of contractors continues to be a management and performance challenge facing the Agency. The DISA OIG continues to identify noncompliance when it comes to GFE. The Agency is aware of this challenge and continues to provide training to ensure the Agency has a correct and accurate accounting of all GFE provided to contractors.

RYAN.STEPHEN.MICHAEL[redacted]6
Digitally signed by RYAN.STEPHEN.MICHAEL.1300
Date: 2020.10.30 16:50:35 -04'00'

Stephen M. Ryan
Inspector General

2. Payment Integrity

For compliance under the Improper Payments Elimination and Recovery Act of 2010 (IPERA), DISA has an internal control structure in place to mitigate improper payment that could result in payment recovery actions. Testing includes reviews for civilian time and attendance, travel payments, and purchase card transactions. Tests validate that internal controls are in place and functioning as preventative measures to mitigate risks in the execution, obligation and liquidation of funding for transactions. In the event there are overpayments, the Defense Finance and Accounting Service (DFAS), as DISA's accounting service provider, performs overpayment recapture functions in behalf of DISA. DFAS is including payments on behalf of DISA in their sampling populations for improper payment testing.

DoD OIG Audit Report Transmittal Letter

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

November 9, 2020

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Information Systems Agency General Fund Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FL-0084.000, Report No. DODIG-2020-021)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Information Systems Agency (DISA) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. 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 the DISA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. 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, Updated April 2020. Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DISA General Fund Financial Statements. As a result, Kearney & Company could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney & Company did not express an opinion on the DISA General Fund FY 2020 and FY 2019 Financial Statements and related notes.

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

- DISA did not implement sufficient processes or internal controls to support the completeness and accuracy of its Fund Balance With Treasury. Specifically, DISA, in coordination with its service organization, did not implement sufficient internal controls over suspense accounts, Statement of Differences, or the Cash Management Report to ensure that transactions did not contain DISA collections and disbursements that should be recognized in DISA accounting records. In addition, DISA and its service provider did not validate data used to create the Cash Management Report and could not provide sufficient support for reconciliation differences in a timely manner.

- DISA did not perform an analysis to determine the impact of revenue adjustments and transactions recorded across multiple fiscal years and could not provide sufficient revenue documentation. In addition, DISA had not developed or implemented formal processes and internal controls to validate the input and establish a threshold for its Allowance for Doubtful Accounts.

- DISA did not implement effective systems internal controls to prevent disbursements from being processed if the disbursements could not be matched to an outstanding payable and obligation. DISA also did not have processes or controls in place to research and correct potential misclassifications of unmatched transactions. DISA did not properly implement internal controls to review or validate its Accounts Payable accrual estimates. Lastly, DISA was unable to provide adequate expense documentation.

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

- DISA had deficiencies in the design and operating effectiveness of internal controls related to service organization systems, including the Defense Agency

[*] 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.

Initiative, supporting DISA's operations and mission. 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 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 in which DISA did not comply with the Federal Financial Manager's Financial Improvement Act, the Federal Information Security Modernization Act, or the Federal Manager's Financial Integrity Act.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DISA General Fund FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DISA General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 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 November 9, 2020, reports, 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 the Inspector General of the Department of Defense

Report on the Financial Statements

We were engaged to audit the accompanying General Fund (GF) financial statements of the Defense Information Systems Agency (DISA), which comprise the balance sheets as of September 30, 2020 and 2019, the related statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion section below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are complete and free from material misstatements when taken as a whole.

We were unable to obtain sufficient appropriate audit evidence to support the existence and accuracy of Fund Balance with Treasury (FBWT), Accounts Receivable (AR), Accounts Payable (AP), Earned Revenue, Gross Costs, and the related budgetary accounts. DISA was unable to provide sufficient supporting documentation to complete testing over the FBWT, AR, AP, Earned Revenue, and Gross Costs line items in fiscal year (FY) 2020. This significantly impacted our audit procedures and was the primary reason for DISA's inability to accurately provide sufficient audit evidence in these areas. In addition, we were unable to obtain sufficient audit evidence to support the appropriateness of material adjustments made to AP in DISA's year-end financial statements.

As of September 30, 2020, DISA reported $3.1 billion in FBWT, $50.5 million in AR, and $334 million in AP on its balance sheet. As of September 30, 2020, DISA reported $174.4 million of Earned Revenue and $3.9 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 Management's Discussion and Analysis and other Required Supplementary 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of matters described in the Basis for Disclaimer of Opinion section above. We do not express an opinion or provide any assurance on the information.

Other 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 (AFR), 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.

KEARNEY& COMPANY

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 November 9, 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, 2020. 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
November 9, 2020

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 ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise DISA GF's financial statements, and we have issued our report thereon dated November 9, 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 of DISA GF, we considered DISA GF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DISA GF'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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be material weaknesses.

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 acknowledged the findings identified in our audit in a separate memorandum attached to this report in the Agency Financial Report (AFR). DISA's responses were not subjected to the auditing procedures applied in our audit 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
November 9, 2020

Schedule of Findings

Material Weaknesses

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

Material Weakness	Material Weakness Sub-Category
I. Fund Balance with Treasury (FBWT)	A. Suspense Accounts Reconciliation and Reporting Procedures B. Statements of Differences Reconciliation and Reporting Procedures C. Creation of the Cash Management Report D. Cash Management Report Unallocated Funds Differences E. Cash Management Report Reconciliation and Reporting Procedures F. Suspense Discontinued Research Packages
II. Accounts Receivable (AR)/Revenue	A. Revenue Samples Not Supported B. Allowance for Doubtful Accounts
III. Accounts Payable (AP)/Expense	A. Potential Overstatement of Accounts Payable, Expense, and Related Budgetary Accounts B. Lack of Accounts Payable Accrual Validation C. Expense Samples Not Supported D. Lack of Travel Certifications and documentation
IV. Budgetary Resources	A. Invalid Unfilled Customer Orders B. Invalid Undelivered Orders C. Untimely Unfilled Customer Order Transactions D. Untimely Undelivered Order Transactions E. Inaccurate Recoveries of Prior-Year Unpaid Obligations
V. Information Technology (IT)	Information System Security Controls

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

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

A. Suspense Accounts Reconciliation and Reporting Procedures
B. Statements of Differences Reconciliation and Reporting Procedures
C. Creation of the Cash Management Report

D. Cash Management Report Unallocated Funds Differences.
E. Cash Management Report Reconciliation and Reporting Procedures
F. Suspense Discontinued Research Packages.

A. Suspense Accounts Reconciliation and Reporting Procedures

Background: DISA uses a service organization to manage, report, and account for Fund Balance with Treasury (FBWT) budget clearing (suspense) account activities to the U.S. Department of the Treasury (Treasury). DISA is responsible for monitoring and approving the FBWT reconciliations performed by its service organization on its behalf and is responsible for the complete and accurate reporting of FBWT on its financial statements and disclosures.

Budget clearing accounts temporarily hold unidentifiable general, revolving, special, or trust fund collections or disbursements that belong to the Federal Government. An "F" preceding the last four digits of the fund account symbol identifies these funds. These clearing accounts are to be used only when there is a reasonable basis or evidence that the collections or disbursements belong to the U.S. Government and, therefore, properly affect the budgetary resources of the Department of Defense (DoD) activity. None of the collections recorded in clearing fund accounts are available for obligation or expenditure while in a clearing account. Agencies should have a process to research and properly record clearing account transactions in their general ledger (GL) timely. Treasury Financial Manual (TFM) Bulletin 2020-05 requires that transactions be researched and properly cleared from the accounts within 60 days.

DISA suspense transactions, if any, are included and accounted for in the Treasury Index (TI) 97 Other Defense Organizations (ODO), Department of the Navy (TI-17), Department of the Air Force (TI-57), and Department of the Army (TI-21) suspense accounts, based on DoD disbursing processes.

Condition: DISA has not implemented sufficient internal control activities to ensure that transactions recorded in suspense accounts do not contain DISA collections and disbursements that should be recognized in DISA accounting records. While DISA's service organization prepares quarterly suspense management analyses for each TI to identify the total count and amount of suspense account transactions resolved to DISA and other Defense agencies, the management analyses are not available until 60 days after quarter-end. This timeline is not sufficient to determine what portion of the suspense balances, if any, should be attributed to DISA for financial reporting purposes.

Cause: DISA's suspense activity is not recorded in unique suspense accounts, but rather in shared TI-97, TI-57, TI-21, and TI-17 suspense accounts. Suspense Universes of Transactions (UoT) are not available for review until 60 days after quarter-end and often do not identify the responsible reporting entity for each transaction. DISA and its service organization have not designed and implemented a methodology to determine the financial reporting impact of DoD suspense account balances to DISA's financial statements for financial reporting.

In addition, the practice of intentionally recording certain transaction classes to suspense created an excessive volume and dollar amount recorded in DoD suspense accounts. During FY 2020, DISA's service organization began efforts to remove transactions that were intentionally recorded to suspense accounts, resulting in a significant decrease in the overall volume and dollar amounts as of year-end.

Effect: DISA cannot identify and record its suspense activity into its GL and financial statements pursuant to quarterly financial reporting timelines. Without additional compensating internal controls or monitoring procedures and analyses, the lack of methodology to determine the financial reporting impact of the suspense balances inhibits DISA's ability to assert to the completeness and accuracy of reported FBWT on its balance sheet, as well as other financial statement line items as applicable.

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

1. Continue implementing business process improvements to prevent items from reaching suspense.
2. Research and resolve suspense transactions by correcting the transactions in source systems, as well as assist its service organization with necessary supporting documentation for corrections, if needed.
3. Consider any limitations to the suspense account reconciliation process and develop compensating controls to reconcile any included FBWT suspense activity or, through documented materiality analysis, indicate that management accepts the risk of potential misstatement.
4. Pursuant to receiving the necessary information and documentation from its service organization, develop and implement procedures to identify DISA's actual or estimated suspense account balances for recording and reporting into the GLs and financial statements. DISA should develop estimates using relevant, sufficient, and reliable information.
5. Work with its service organization to monitor and track the resolution of suspense activity cleared to DISA to enable DISA to perform root cause analysis.
6. Work with its service organization to strengthen system and process controls to ensure that disbursements and collections are processed with valid TI, Treasury Account Symbol (TAS), and FY inputs.
7. Work with its service organization to develop and implement processes and controls to eliminate instances where transactions are being placed in suspense accounts intentionally.
8. Work with its service organization to develop a procedure to determine what portion of the suspense balances, if any, should be attributed to DISA for financial reporting.

B. Statements of Differences Reconciliation and Reporting Procedures

Background: DISA's service organization provides daily Non-Treasury Disbursing Office (NTDO) disbursing services under various Agency Location Codes (ALC), often referred to as Disbursing Symbol Station Numbers (DSSN). Additionally, the service organization provides monthly Treasury reporting services under various reporting ALCs, which are different than disbursing ALCs. Monthly, the service organization submits NTDO disbursing activity to its assigned reporting ALC to generate a consolidated Standard Form (SF)-1219, *Statement of Accountability*, and SF-1220, *Statement of Transactions*. Daily, Treasury Disbursing Office (TDO) ALCs submit reports directly to Treasury and complete SF-224, *Statement of Transactions*, at month-end. DoD Components are responsible for investigating and resolving these differences and reporting any required adjustments on their monthly submissions to Treasury.

Treasury compares data submitted by financial institutions and Treasury Regional Financial Centers to ensure the integrity of the collection and disbursement activity submitted. A Statement of Differences (SoD) report, known as the Financial Management Services (FMS) 6652, is generated monthly in Treasury's Central Accounting Reporting System (CARS). The SoD report identifies discrepancies between the collections and disbursements reported to Treasury and what was actually processed for each ALC by accounting month (i.e., the month the report is generated) and accomplished month. DISA is responsible for researching and resolving all differences identified on the FMS 6652 for its ALCs.

There are three categories of SoD reports generated by Treasury: 1) Deposit in Transit (DIT); 2) Intra-Governmental Payment and Collections (IPAC) or Disbursing; and 3) Check Issued. Disbursing Officers responsible for applicable disbursing ALCs are required to research and resolve DIT, IPAC, and Check Issued differences monthly. DISA's service organization has three reporting ALCs which are responsible for month-end reporting of collections and disbursements to Treasury.

Condition: DISA has not implemented sufficient internal control activities to ensure that transactions which comprise the SoD balances in DISA's primary DSSNs do not contain DISA collections and disbursements that should be recognized in DISA's accounting records. While its service organization prepares quarterly SoD management analyses for each DSSN to identify the total count and amount of SoD transactions identified to DISA and other Defense agencies, the management analyses are not available until 60 days after quarter-end. This timeline is not sufficient to determine what portion of the SoD balances, if any, should be attributed to DISA for financial reporting purposes.

Cause: SoD UoTs are not available for review until 60 days after quarter-end and often do not identify the responsible reporting entity for each transaction. DISA and its service organization have not designed and implemented a methodology to determine the financial reporting impact of the SoD balances to DISA's financial statements. DISA's service organization has begun efforts to identify root causes by DSSN to reduce the SoD balances and clear transactions to

DoD entities timely. The shared ALCs and lack of Line of Accounting (LOA) information make it difficult to resolve differences timely.

In addition, DISA's service organization reports expenditure activity monthly to Treasury using reporting ALCs shared with other DoD agencies. Treasury's CARS reports SoDs at the ALC level and does not provide LOA information to easily identify the agency responsible for the differences.

Effect: DISA cannot identify and record its SoD activity into its GL and financial statements pursuant to quarterly financial reporting timelines. Without additional compensating internal controls or monitoring procedures and analyses, the lack of methodology to determine the financial reporting impact of the SoD balances inhibits DISA's ability to assert to the completeness and accuracy of reported FBWT on its balance sheet, as well as other financial statement line items, as applicable.

Recommendations: Kearney recommends that DISA fully implement internal control activities to ensure that all material DISA transactions, individually and in the aggregate, are identified and appropriately included within DISA's accounting records. Specifically, Kearney recommends that DISA perform the following:

1. Assist its service organization by providing supporting information to clear transactions timely.
2. Work with Treasury, the Office of the Secretary of Defense (OSD), its service organization, and other parties to transition away from using monthly NTDO reporting ALCs to daily TDO reporting ALCs.
3. Consider any limitations to the SoD reconciliation process and develop compensating controls to reconcile any included FBWT SoD activity in an effort to minimize the risk of a potential material misstatement, or, through documented materiality analysis and risk assessment, indicate that management accepts the risk of potential misstatement.
4. Pursuant to receiving the necessary information and documentation from its service organization, develop and implement procedures to identify DISA's actual or estimated SoD balances for recording and reporting into the GLs and financial statements. DISA should develop estimates using relevant, sufficient, and reliable information.
5. Work with its service organization to continue assessing and identifying ALCs that primarily report collection and disbursement activity to Treasury on behalf of DISA.
6. Work with its service organization to continue to monitor and track the resolution of SoDs cleared to DISA to enable DISA to perform root cause analysis and create projections of potential outstanding unresolved balances.
7. Schedule recurring meetings with its service organization to help resolve outstanding differences.
8. Work with its service organization to develop a procedure to determine what portion of the SoD balances, if any, should be attributed to DISA for financial reporting.

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 combined ODO FBWT amount. DISA's service organization produces the Cash Management Report (CMR) to provide ODOs with individual FBWT at limit level.

The CMR creation process is complex and requires the compilation of data from multiple sources and systems, including:

- Headquarters Accounting and Reporting System (HQARS)
- Edit Tables
- Defense Cash Accounting System (DCAS)
- Navy Subhead distribution file
- Funding and expenditure data by appropriation reported to Treasury
- Defense Departmental Reporting System – Budgetary (DDRS-B)
- Program Budget Accounting System (PBAS)/Enterprise Funds Distribution (EFD).

DISA's service organization consolidates the expenditure and budgetary data in HQARS and then transfers the compiled activity to a C# database to create the CMR. The CMR is disaggregated and used to generate the TI-97 GF FBWT Reconciliation (Recon) (also called the "Audit Workbook") and is ingested into DDRS-B to calculate automated undistributed adjustments which force DISA's FBWT balance to reconcile to the CMR at the limit level. As a DoD Component, DISA is responsible for monitoring and approving the reconciliations performed by its service organization on its behalf.

Condition: Internal control deficiencies were identified in the CMR creation process which negatively impact DISA's ability to support the completeness and accuracy of its FBWT balance. The specific conditions are summarized below.

- DISA's FBWT is reconciled to Treasury via the CMR created by its service organization. DISA's service organization does not perform data validation procedures to ensure the source files used to create the CMR reconcile back to the original source systems. This applies to expenditure activity that is imported at the summary level from DCAS and Departmental Cash Management System into HQARS, as well as to the files imported or interfaced into HQARS for DSSNs managed by DISA's service organization
- DISA utilizes the Defense Finance and Accounting Service (DFAS) Manual 7097 to determine its limit(s), which provides its FBWT balance on the CMR; however, DISA does not have a documented or proven process of regularly monitoring the 7097 or verifying its limits reported on the CMR which populate its FBWT balance.
- DISA's service organization creates the CMR to determine the FBWT balance for each TI-97 agency at the limit level. The CMR contains unidentified differences with Treasury which could contain transactions belonging to DISA and could pose a completeness risk to DISA

- The data in the CMR is obtained from a number of different sources which use a variety of structures for various data elements. DISA's service organization has created several databases to convert the data into a consistent format that is compatible with HQARS. The tables in the databases that perform these conversions do not have documented controls to ensure the data conversions are performed accurately.

Cause: DISA shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA is dependent on its service organization to provide the FBWT amount on the financial statements. DISA's service organization does not reconcile input data for the CMR back to source systems. The CMR contains unidentified differences with Treasury which could contain transactions belonging to DISA and could pose a completeness risk to DISA. 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) increase the risk that errors or necessary adjustments exist but may remain 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.

Recommendations: Kearney recommends that DISA perform the following:

1. Work with Treasury to establish subaccounts under the basic symbols used by DISA (0100, 0300, 0400, 0500) 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 continue to develop and formally document the beginning-to-end business process and internal controls for the CMR creation process in a written narrative and flowchart that includes the following information, at a minimum (not an all-inclusive list):
    a. Provide a process description at a detail level: Provide a description of each process at the detail level in the order in which it occurs to allow for traceability from the beginning to the end of the process.
    b. Identify key personnel/process owner: Clearly identify the name/title/role of the person executing the transaction or performing the process.
    c. Identify key control activities: Identify who, what, when, and how the control activity is performed and how performance of the control is documented.
    d. Identify key supporting documentation (KSD): Identify the written document(s) that support execution of the process or transaction.
    e. Identify relevant laws and regulations and policies/procedures: Identify laws, regulations, policies, and procedures relevant to the process.

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3. 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.
4. 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.
5. Create the CMR in a system with appropriate general application information technology (IT) controls to prevent changes to the data without appropriate authorization.

D. Cash Management Report Unallocated Funds Differences

Background: Following the creation of the CMR, DISA's service organization produces a workbook called the Audit Workbook. The Audit Workbook is a summary of the CMR, broken down into different categories, including three identified balances. The identified balances columns on the September 2019 (FY 2020 beginning balance) Audit Workbook are: Agency Limits (DISA), ODO Limits, and Unallocated Funds (99UF). Unallocated Funds represent funds appropriated to the DoD by TAS which have not yet been allocated to a specific ODO. There is a warrant at Treasury for the funding, but the Department has not distributed the funding to any organization/limit. DISA's service organization is responsible for reconciling FBWT appropriation accounts at the TI and main appropriation account level, including ensuring that the FBWT UoT for each TAS recorded to United States Standard General Ledger (USSGL) accounts 101000 and 1090000 for all DoD funds is complete and fully reconciled to all of the individual appropriation account balances recorded at Treasury. KSD must be maintained and provided upon request. This documentation must include evidence of reconciliation performed and confirmation that all differences were successfully reconciled.

Condition: DISA and its service organization were unable to provide sufficient support for the September 30, 2019 and the March 31, 2020 CMR Unallocated Funds reconciliation in a timely manner. Specifically, the initial reconciliations provided for both periods did not fully reconcile the total CMR Unallocated Funds balance to the underlying supporting documents from the PBAS and EFD systems. Additional supporting documents and revised reconciliations were required in order to fully support the CMR Unallocated Funds balances for those periods.

Subsequent to the September 30, 2019 and March 31, 2020 reconciliations, DISA's service organization provided a reconciliation for the June 30, 2020 reporting period which reconciled without material error. This condition is specific to the findings identified for the September 30, 2019 and March 31, 2020 reporting periods.

Cause: DISA shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA is dependent on its service organization to provide the FBWT amount on the financial statements. DISA has not fully developed compensating controls to ensure its FBWT is complete and accurate.

For the periods identified in the condition above, DISA's service organization did not have adequate procedures in place for a repeatable process to reconcile the Unallocated Funds category on the CMR or provide consistent supporting documentation for the Unallocated Funds balance quarterly.

Effect: Ineffective procedures to provide consistent support in a timely manner for the CMR Unallocated Funds balance impacts DISA's ability to support the completeness and accuracy of its FBWT. A lack of documentation supporting the reconciliation of Unallocated Funds results in a completeness risk to DISA's FBWT. As a result, the DISA financial statements may be materially misstated, and these misstatements may not be detected and corrected timely.

Recommendations: Kearney recommends that DISA perform the following:

1. Work with Treasury to establish subaccounts under the basic symbols used by DISA (0100, 0300, 0400, 0500) 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 Treasury, OSD, its service organization, and other parties to transition away from using monthly non-CARS reporting ALCs to daily full CARS reporting ALCs.
3. Work with Treasury, OSD, and its service organization to establish an ALC that processes DISA's transactions exclusively.
4. Work with its service organization to continue to develop and implement a repeatable process to sufficiently support the balance of the Unallocated Funds on the CMR.
5. Work with its service organization to document the newly developed procedures in a Standard Operating Procedures (SOP) document and ensure its service organization regularly updates and maintains the document.

E. Cash Management Report Reconciliation and Reporting Procedures

Background: The CMR is broken up into different categories, two of which are Edit Issue Balances, also called Reconciling Items, and Unidentified Variances. The transactions in these categories are not identified to an agency at the time of reporting and, therefore, are not reported on any specific ODO's financial statements, including DISA's. DISA's service organization is responsible for tracking, researching, and resolving the Reconciling Items and Unidentified Variances timely as a part of the TI-97 FBWT reconciliation. The CMR reconciling items could potentially result in material misstatements for any one specific TI-97 agency, including DISA.

Condition: DISA has not implemented sufficient internal control activities to ensure that transactions recorded in the CMR Reconciling Items and Unidentified Variances do not contain DISA collections and disbursements that should be recognized in DISA accounting records. While DISA's service organization prepares quarterly CMR management analyses to identify the total count and amount of Reconciling Items and Unidentified Variances transactions resolved to DISA and other Defense agencies, the management analyses are not available until 60 days after quarter-end. This timeline is not sufficient to determine what portion of those CMR balances, if any, should be attributed to DISA for financial reporting purposes.

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Cause: DISA shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA is dependent on its service organization to provide the FBWT amount on the financial statements. The CMR contains reconciling items and unidentified differences with Treasury, which could contain transactions belonging to DISA and could pose a completeness risk to DISA. In addition, DISA has not fully developed compensating controls to ensure that its FBWT is complete and accurate. DISA and its service organization have not designed and implemented a methodology to determine the financial reporting impact of CMR Reconciling Items and Unidentified Variances to DISA's financial statements for financial reporting.

During FY 2020, DISA's service organization began efforts to reduce the balances and volume of transactions which end up in the Reconciling Items and Unidentified Variances categories of the CMR, resulting in a significant decrease in the overall volume and dollar amounts as of year-end.

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

Recommendations: Kearney recommends that DISA perform the following:

1. Work with Treasury to establish subaccounts under the basic symbols used by DISA (0100, 0300, 0400, 0500) that are unique to the agency so that it can obtain CARS reports to document its FBWT balance directly from Treasury and remove the need for the creation of the CMR.
2. Work with Treasury, OSD, DISA's service organization, and other parties to transition away from using monthly non-CARS reporting ALCs to daily full CARS reporting ALCs.
3. With the support of its service organization, develop and implement a methodology to identify the actual or estimated impact of CMR differences that should be attributed to DISA's FBWT account.
4. Work with Treasury, OSD, and DISA's service organization to establish an ALC that processes DISA's transactions exclusively.
5. Consider any limitations to its service organization's CMR reconciliation process and develop compensating controls to reconcile any included FBWT activity or, through documented materiality analysis, indicate that management accepts the risk of potential misstatement.
6. Work with its service organization to continue to develop and implement procedures to resolve differences between the CMR and CARS monthly and identify the agencies for which the differences impact.
7. Work with it service organization to ensure that the documented procedures are reviewed and updated regularly.

8. Work with its service organization to monitor and track the resolution of the various CMR differences categories cleared to DISA to enable the agency to perform root cause analysis and create projections of potential outstanding unresolved balances.

F. Suspense Discontinued Research Packages

Background: DISA's service organization manages, reports, and accounts for FBWT budget clearing (suspense) account activities to Treasury on behalf of DISA. DISA is responsible for monitoring and approving the FBWT reconciliations performed by its service organization on its behalf.

Budget clearing accounts temporarily hold unidentifiable general, revolving, special, or trust fund collections and disbursements that belong to the Federal Government. These accounts are to be used only when there is a reasonable basis or evidence that the collections or disbursements belong to the U.S. Government and, therefore, properly affect the budgetary resources of the DoD activity. Per TFM Bulletin 2020-05, agencies should research and properly resolve suspense account transactions within 60 days. Suspense transactions become more difficult to resolve as they continue to age.

DISA suspense transactions, if any, are included and accounted for in the TI-97 ODO, Department of the Navy (TI-17), Department of the Air Force (TI-57), and Department of the Army (TI-21) suspense accounts, based on DoD disbursing processes.

According to the DoD Financial Management Regulation (FMR), Volume 3, Chapter 11, Section 1108, *Request to Discontinue Unmatched Disbursements (UMD)/Negative Unliquidated Obligation (NULO) Research*, agencies may request to discontinue transaction research if certain criteria are met and properly approved by the funds holder, Military Department Assistant Secretaries Financial Management and Comptroller (FM&C), or Defense Agency Comptroller. In FY 2020, DISA's service organization prepared suspense Discontinued Research Packages (DRP) totaling $35.22 million (net) and $1.04 billion (absolute) to transfer approximately 20,000 collection and disbursement transactions out of DoD suspense accounts.

Condition: Testing determined that eight of 11 suspense DRPs totaling $21.26 million (net) and $991.65 million (absolute) were not properly supported based on guidance to discontinue research within the DoD FMR. DRPs processed by DISA's service organization were not properly approved for TI-21 and TI-97, and DRPs for TI-21, TI-57, and TI-97 were not properly prepared. Research of transactions residing in TI-21 and TI-97 suspense accounts was improperly discontinued, due to a lack of approval, and transferred out of suspense. In addition, DISA's service organization could not provide authorizing regulation or guidance which prescribed that the netting of TI-21, TI-57, and TI-97 collection and disbursement transactions was appropriate. Specifically, testing identified the following:

- Eight samples improperly netted collection and disbursement transactions

- Seven samples contained insufficient evidence to support the transfer due to missing support that DISA's service organization and the reporting entity exhausted research prior to preparing and processing the DRPs
- Seven samples lacked evidence of approval from the funds holder, Military Department Assistant Secretaries (FM&C), or Defense Agency Comptroller to discontinue research and acceptance of the charge against their LOA.

Cause: Through the course of remediation efforts to address the volume and dollar amount included within suspense accounts, DISA's service organization did not formalize its approach for processing DRPs in accordance with the DRP requirements set forth in the DoD FMR.

Effect: Without additional compensating internal controls or monitoring procedures and analyses, unauthorized DRPs which have been processed, increase the risk that DISA transactions were erroneously written off. This risk inhibits DISA's ability to assert to the completeness and accuracy of reported FBWT on its balance sheet, as well as other financial statement line items as applicable.

Recommendations: Kearney recommends that DISA work with its service organization to perform the following:

1. Develop a consistent approach for processing DRPs in accordance with requirements set forth in the DoD FMR.
2. Research and document all efforts to resolve aged suspense transactions prior to preparing and processing DRPs.
3. Document appropriate approval to discontinue research and any needed acceptance to transfer the transactions against their LOA.
4. Design and/or implement a process to receive from its service organization planned DRP write-offs. DISA should perform the necessary procedures to confirm it cannot identify any of the transactions pending discontinuance and provide timely responses to its service organization accordingly. For DRPs not aligned with DISA, DISA should obtain confirmation of the DRPs accepted by the other DoD entities to address the completeness risk to DISA's FBWT.

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

Deficiencies in two related areas define this material weakness:

A. Revenue Samples Not Supported
B. Allowance for Doubtful Accounts.

A. Revenue Samples Not Supported

Background: DISA participates in various types of transaction activities that generate revenues for the agency that are reported on the Statement of Net Cost (SNC). Specific to the DISA General Fund (GF), these revenues are generated primarily to provide information system services to various trading partners throughout the FY. DISA GF revenues recorded for the period ended March 31, 2020 totaled $75.8 million. DISA management is responsible for ensuring revenue transactions are recorded in the correct period for the correct amount.

As part of the procurement process, DISA prepares invoices for services performed for its customer. This invoice type varies, as it is dependent on whether the vendor and transaction is between another Government agency or a commercial vendor. Another type of document, which is typically included in addition to the invoice provided by DISA, relates to an SF-1080, *Vouchers for Transfers Between Appropriations and/or Funds.* This standard DoD form provides details relating to the amount of the applicable transfer and appropriation, as well as citing the agency's (e.g., DISA GF) LOA. Additionally, the SF-1080 is primarily used by DISA's service organization on a daily basis when processing and documenting the transactions. A majority of DISA's transactions that utilize the SF-1080 forms are processed through the DCAS and IPAC system, as well as the 1080-Print billing process. DISA's service organization processes each of these methodologies of intragovernmental transactions and billing to the customers and collects them on behalf of the requesting agency (e.g., DISA GF).

Condition: A sample of 164 GF revenue transactions was selected for review. The testing identified the following exceptions:

- Forty-five transactions totaling $9.1 million were instances where DISA recorded revenue in the current year that was earned in a prior year. This activity overstates current-year revenue
- Twelve transactions totaling ($1.2) million were instances where DISA made a correction to a prior-period accrued revenue. This activity understates current-year revenue
- Twenty-six transactions totaling $6.7 million did not contain enough audit evidence or support to conclude on the sampled transaction.

Cause: DISA recognizes expense and related revenue based on an estimated accrual. DISA did not perform an analysis to determine the impact of the revenue adjustments and transactions that were recorded across multiple FYs (e.g., FY 2019 vs. FY 2020) to revenues for the period ended September 30, 2020. Sufficient revenue documentation and evidence was not readily available or auditable for the selected and sampled revenue transactions of DISA GF.

Effect: DISA management was unable to provide the applicable billing documentation to support the validity, accuracy, and existence of the FY 2020 revenue transactions reported on the FY 2020 financial statements.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement controls and processes to ensure DISA obtains and has readily available documentation to support revenue transactions (e.g., applicable invoice and/or applicable contract).
2. Design and implement procedures and controls to confirm that the revenues are appropriately recorded in the proper period, as well as contain the necessary documentation and support for each transaction type.
3. Coordinate with its service organization to ensure that accurate support is maintained and collected for each revenue transaction prior to processing the payment.
4. Update and document new policies and procedures relating to the revenue support within the Standard Operating Procedures (SOP) to ensure applicable understanding and requirements are consistent across the agency.

B. Allowance for Doubtful Accounts

Background: Accounts receivable (AR) arise from claims to cash or other assets. A receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the date they are due) or goods or services provided. When a receivable is not collected for an extended period of time and payments are outstanding, it would then be considered a receivable to be monitored during the aging process. In order to properly monitor the aged receivables, DISA completes and documents a formal letter for debts greater than 90 days outstanding that prompts the mission partner to submit its outstanding receivables. If there are transactions noted that fall into the greater than 120 days outstanding category, DISA creates and submits an Elevation Package for that specific mission partner's records and applicable debt notifications.

DISA uses a service organization to create the applicable journal entry (JE) and obtain the necessary support for the Allowance for Doubtful Accounts estimate. The service organization creates the estimates from the receivables that arise from claims to cash or other assets against another entity. An allowance for doubtful accounts should be recognized to reduce the gross amount of receivables to its net realizable value. Entity management is responsible for developing these reasonable estimates based on assumptions and relevant factors, as well as comparing estimates with subsequent results to assess the accuracy of the estimation process.

Federal Accounting Standards Advisory Board (FASAB) Technical Bulletins (TB) provide guidance for agencies in order to properly apply FASAB Statements and Interpretations, as well as resolve accounting issues not directly addressed by FASAB. FASAB issued TB 2020-1, *Loss Allowance for Intragovernmental Receivables*, on February 20, 2020 and required implementation in FY 2020. TB 2020-1 established that an allowance for estimated uncollectible amounts should be recognized in order to reduce the gross amount of receivables to its net realizable value.

Condition: In connection with supporting the fair presentation of its AR, DISA has not:

- Maintained evidence to support the accuracy of its receivables, reviewed the allowance for uncollectible amounts, or confirmed that communication was issued to its mission partners relating to those aged receivables greater than 90 days
- Prepared a consistent review of the package and calculations created for the Allowance for Doubtful Accounts balance, which are completed by its service organization prior to its inclusion in the financial statements. DISA does not have consistent formal controls or documentation in place to ensure there is DISA management review of the support obtained by its service organization to create the estimate amount
- Implemented the applicable provisions of FASAB TB 2020-1, which establishes the guidelines of a process to determine if a loss allowance is required relating to any outstanding intragovernmental receivables.

Cause: DISA does not have a documented process in place to monitor updates to accounting standards and to ensure it has updated its policies and controls in order to comply with these updates. DISA has not developed and implemented formal processes and internal controls to validate the input and establish a threshold for its Allowance for Doubtful Accounts. DISA GF has not implemented control activities to monitor aging AR balances and resolve aged balances with its mission partners.

Effect: Without procedures and analysis to implement TB 2020-1 and complete a review and approval of significant accounting estimates, such as the Allowance for Doubtful Accounts, DISA's AR balances included on its balance sheet are at increased risk for potential misstatements. DISA was not able to provide appropriate audit evidence to support 12 of 22 transactions that resulted in receivables aged greater than 270 days, totaling $1.4 million. DISA did not bill these transactions timely and was not aware of these outstanding receivables until testing was completed.

Recommendations: Kearney recommends that DISA perform the following:

1. Establish and document internal control procedures to review and implement new accounting guidance to ensure compliance with FASAB.
2. Develop policies and monitor service organizations to ensure that the applicable guidance, specifically TB 2020-1, will be incorporated and considered when performing the calculation of the allowance for doubtful accounts over the outstanding AR balances, including those from Federal entities.
3. Establish and document internal controls to ensure the accuracy of the Allowance for Doubtful Accounts estimate, as well as update SOPs, to accurately reflect the input and management review.
4. Communicate and monitor the calculations and data created by its service organization and provide necessary feedback and timely approval to confirm the necessary estimate over the outstanding AR balances.

5. Implement internal control procedures to perform a consistent review over the aged AR balances and establish procedures to document the review of the estimates of the applicable uncollectable allowances for each transaction.
6. Implement processes to submit the formal memorandums and Elevation Packages to the mission partners in order to communicate and clear outstanding balances.
7. Update and document the SOPs to ensure the necessary controls are in place and coordinate with its service organization on matters relating to the recording of outstanding and aged receivables.

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

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

A. Potential Overstatement of Accounts Payable, Expense, and Related Budgetary Accounts
B. Lack of Accounts Payable Accrual Validation
C. Expense Samples Not Supported
D. Lack of Travel Certifications and Documentation.

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

Unmatched Accounts Payable, Expense, and Related Budgetary Transactions

Background: In October 2018, DISA transitioned its GL accounting system from Washington Headquarters Services (WHS) Allotment and Accounting System (WAAS) to Defense Agencies Initiative (DAI). Due to data conversion challenges and posting logic, a significant amount of payments made on behalf of DISA by its service organization were processed without matching the payment to the appropriate project within DAI. Payments not linked to a document in DAI, also called "Unmatched" disbursements, create new expense transactions.

Unmatched transactions occur for a variety of reasons, such as truncated document numbers, payment amounts being higher than the accrual balance, and typos (i.e., "0" versus "O"). DISA conducts manual research to determine why the transaction did not post to the correct project and coordinates with its service organization to post the correction to clear the unmatched transaction in DAI. To preserve the integrity of the financial information system, it is important to clear unmatched transactions timely.

Condition: DISA's current business process and control structure allow payments to be processed without matching to a project in DAI. This allows payments to be made without the reduction to an existing outstanding payable and obligation at the project level. In order to clear these "unmatched" transactions from DAI, a manual process of research and coordination with DISA's service organization is required.

DAI's posting logic for unmatched disbursements conflicts with DISA's expense accrual business process. DISA performs a project-level analysis to post a quarterly manual adjustment for all services/goods received, but not yet invoiced. Unmatched disbursements create an additional expense, and DISA does not currently have a process or control in place to determine the impact of unmatched disbursements that remain unaccounted for within each project.

For the period ended March 31, 2020, the following amounts remained unmatched:

- Expense – $65.3 million
- AP – $130.4 million
- Undelivered Orders (UDO) – $123.7 million.

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed if they cannot be matched to an outstanding payable and obligation. DISA's process to clear unmatched transactions within DAI involves manual research and relies on its service organization to post correcting entries into DAI. DISA and its service organization did not clear unmatched transactions timely for the period ended March 31, 2020. DISA did not perform an analysis or implement a control to reduce the risk of overstating Expense, AP, and related Budgetary accounts due to unmatched transactions and conflicting posting logic within DAI.

Effect: The lack of a control to prevent unmatched disbursements means that erroneous or duplicative disbursements could be made without being detected until the completion of the manual research process. The manual process needed to resolve unmatched transactions introduces additional risk of misstatement and is inherently inefficient. DISA is unable to determine if the $130.4 million of unmatched transactions that remain is, in effect, double-counting transactions and, therefore, overstating its financial statements. These overstatements would affect the AP (balance sheet), Gross Costs (SNC), and New Obligations Incurred (Statement of Budgetary Resources [SBR]) financial statement line items. DISA's accrual methodology and DAI's posting logic for unmatched disbursements creates the risk that the same economic event is accounted for twice.

Recommendations: Kearney recommends that DISA perform the following:

1. Coordinate with its service organization to establish and maintain controls to prevent disbursements from being processed if they are not matched to an outstanding payable and obligation.
2. Coordinate with its service organization to establish controls to clear unmatched expense transactions in a timely manner and reduce the remaining transactions to a trivial amount.
3. Perform an analysis over the unmatched expense population and the contract accrual population to determine the impact of double-counted transactions in order to post an adjustment based on the analysis.
4. Coordinate with the DAI Program Office to update the posting logic so that unmatched disbursements do not record duplicated expenses transactions.

Unmatched Federal/Non-Federal Misclassification

Background: In FY 2019, DISA transitioned its GL accounting system from WAAS to DAI. Due to data conversion challenges and posting logic, a significant number of payments made by DISA's service organization were processed without matching the payment to the appropriate obligating document, or project, within DAI. Payments not linked to a document in DAI, also called "Unmatched" disbursements, create expense and related liability transactions which are automatically classified as non-Federal. DISA is required to present liabilities as Federal and Non-Federal on the balance sheet of the financial statements.

Condition: DAI, DISA's GL system, automatically classifies all unmatched payments (transactions) as Non-Federal. Transactions that remain unmatched at a reporting period are not corrected from Non-Federal to Federal, when appropriate. For the period ended March 31, 2020, the following amounts remained unmatched and were not reviewed in full or analyzed to determine the potential misstatement and associated reclassification correction:

- Expense – $65.3 million
- AP – $130.4 million.

Cause: DISA's service organization processes payments on behalf of DISA. When payments are not linked to a valid obligating document in DAI, payments are posted as unmatched and automatically classified as Non-Federal within DAI. DISA does not have processes or controls in place to research and correct potential misclassifications of unmatched transactions.

Effect: Without effective processes and controls to prevent and detect misclassified unmatched transactions, DISA's financial statements potentially contain uncorrected misstatements. As of March 31, 2020, DISA reported an abnormal AP balance with the public of $36.3 million in its Operations and Maintenance account.

Recommendations: Kearney recommends that DISA perform the following:

1. Design a process to identify and reclassify unmatched transactions appropriately as Federal when unmatched transactions are with Federal vendors.
2. Document and update the necessary SOPs to reflect the changes and adjustments implemented for the overall process.

B. Lack of Accounts Payable Accrual Validation

Background: Federal agencies should only record a liability when there is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions. The USSGL provides guidance on which USSGL accounts should be used to report the various types of liabilities that a Federal entity may encounter.

When a Federal agency is preparing financial statements, it must establish a methodology for estimating amounts owed, but not yet invoiced. This AP estimate ensures expenses are recorded in the proper period using accrual accounting and the matching principle. Management is responsible for developing these reasonable estimates based on assumptions and relevant factors and comparing estimates with subsequent results to assess the accuracy of the estimation process.

When there is a lag between the receipt of the good or service and the vendor invoice, expenses must be accrued to recognize the costs in the actual period the goods or services were received in accordance with Generally Accepted Accounting Principles (GAAP). An AP accrual is intended to recognize amounts owed by DISA for goods and services received, but not yet invoiced, and amounts invoiced, but not yet paid at the end of the accounting period.

Condition: DISA GF records estimated expenses based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement. DISA calculated this estimate by reviewing its history of completed contracts and the expenses incurred compared to contractual ceiling values. However, DISA has never performed a review to validate the reasonableness of this estimate, such as performing a review of vendor invoices to analyze when expenses were incurred. Such an analysis would provide a validation of vendor billing patterns and the time lag between the receipt of goods and services and vendor invoices.

Cause: Prior to FY 2020, DISA had not developed and executed a process to validate its AP accrual estimates through a review of actual vendor invoices. In FY 2020, DISA engaged a consultant to perform this validation. DISA and its consultant have developed a methodology to analyze vendor invoices paid during the first two quarters of FY 2020 to determine which FY the underlying goods and services were received. This analysis is currently underway.

Effect: Without a process to validate the reasonableness of significant accounting estimates, the estimates may be based on assumptions that are not consistent with actual events and data. This increases the risk that DISA's financial statements may be misstated.

Recommendations: Kearney recommends that DISA perform the following:

1. Continue to execute its plan to perform an accrual validation through the review of vendor invoices.
2. Reassess the reasonableness of the AP estimation technique and its underlying assumptions based on the results and conclusion of the validation effort.

C. Expense Samples Not Supported

Background: DISA participates in various types of transaction activities that generate expenses for the agency that are reported on the SNC. Specific to DISA GF, these expenses are generated primarily through the costs to provide information system services to various trading partners, as well as the standard, operational expenses incurred throughout the FY. DISA GF records estimated expenses based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement. DISA calculated this estimate by reviewing its history of completed contracts and the expenses incurred compared to contractual ceiling values. DISA GF expenses recorded for the period ended March 31, 2020 totaled $1.7 billion. DISA management is responsible for ensuring expense transactions are recorded in the correct period for the correct amount.

Condition: The sample selection consisted of 390 GF Expense transactions. Testing identified the following exceptions:

- Ninety-six transactions totaling ($51.4) million were downward adjustments to an expense accrual recognized in a prior period. This activity incorrectly reduced current-year expenses
- Sixty-eight transactions totaling $35.5 million were expenses incurred in a prior period, recorded in FY 2020. This activity incorrectly overstated current-year expenses
- Seventy-nine transactions totaling $61.3 million did not contain enough audit evidence or support to conclude on the sampled transaction.

Cause: DISA recognizes expenses incurred based on an estimated accrual. When adjustments are required, DISA does not perform an analysis to determine the impact of the expense adjustments and transactions that were recorded across multiple FYs (e.g., FY 2019 vs. FY 2020) to gross costs for the period ended September 30, 2020. Adequate expense documentation and evidence was not readily available or auditable for the selected and sampled expense transactions of DISA GF.

Effect: DISA management was unable to provide the applicable invoice and billing documentation to support the validity, accuracy, and occurrence of the FY 2020 expense transactions reported on the FY 2020 financial statements.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement controls and processes to ensure DISA obtains and has readily available documentation to support expense transactions (e.g., applicable invoice, matching receiving report, and/or applicable contract).
2. Design and implement procedures and controls to confirm that expenses are appropriately recorded in the proper period, as well as contain the necessary documentation and support for each transaction type.
3. Coordinate with its service organization to ensure that accurate support is maintained and collected for each expense transaction prior to processing the payment.
4. Update and document new policies and procedures relating to the expense support within the SOPs to ensure applicable understanding and requirements are consistent across the agency.

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D. Lack of Travel Certifications and Documentation

Background: DISA personnel travel for various reasons to other DISA locations or Government agencies. Travelers utilize the Defense Travel System (DTS), which is a fully integrated, electronic, end-to-end travel management system that automates temporary duty (TDY) travel approvals and transactions for the DoD. DTS allows travelers to create authorizations, book reservations, receive necessary systematic approvals, generate vouchers for reimbursement, and direct payments to the travelers' bank accounts. When DISA personnel are directed to travel, the first-line approver will initially approve the travel via an e-mail correspondence between the traveler and supervisor.

In order to become an authorized Travel Certifying Officer (CO), the appointee must complete the necessary trainings and requirements, as well as sign the Department of Defense (DD) 577 *Appointment Termination Form*. Officials within the agency/organization with the appointing authority will approve and sign the DD 577.

The travel reimbursement process is initiated when the traveler creates and signs a travel request within DTS. Multiple levels of approval may be required, depending on the associated workflow of the request. At a minimum, approval by a DTS CO/Approving Official (AO) is required. Once submitted, the Travel CO/AO will log into DTS to review and approve the traveler's submission package. DISA and its service organization are responsible for maintaining the applicable documentation to support the approval authority, as well as the travel expenses incurred throughout the FY.

Condition: DISA did not provide a valid DD 577 for 27 of 45 control samples. DISA did not provide evidence of proper approval for 40 of 45 travel orders and 11 of 45 travel vouchers. DISA did not provide support for eight of 45 samples, which resulted in an inability to verify the appropriate approval or applicable AO.

Substantive testing of 78 samples identified the following exceptions:

- Twenty-one transactions totaling $130,830 were expenses incurred in a prior period, recorded in FY 2020. This activity incorrectly overstated current-year expenses
- Thirty-seven transactions totaling $144,990 did not contain enough audit evidence or support to conclude on the sampled transaction. This activity incorrectly overstated current-year expenses
- One transaction totaling $8,016 was not recorded for an amount consistent with the support provided.

Cause: DISA did not document or implement formalized processes and supporting internal controls to ensure that there were appropriate approval designations that were maintained for the AO/CO approvals. DISA also did not implement internal controls to confirm the travel approval activity was performed in a timely manner and accurately reflected in DTS and maintain the necessary supporting documentation. DISA did not perform the appropriate review to determine the applicable period and recording of the gross costs within a timely manner to ensure that the expenses were posted in the proper period.

Effect: Without appropriate review of the travel expenses and the appliable DD 577s, there is an increased risk that DISA's travel expenses are misstated and that there could be transactions that do not have the appropriate approval authority. DISA is not able to adequately support the timely and appropriate review over the travel process. Ineffective controls or control objectives may cause the travel approvals to be inaccurate. Through testing procedures, it was determined that there was a known error of $163,772 and a projected error of ($3,543,856) for 78 transactions.

Recommendations: Kearney recommends that DISA coordinate internally, as well as with its service organization, to perform the following:

1. Establish and monitor a consistent process for timely approvals of travel expenses and ensure the necessary supporting documentation for various types of transactions is maintained.
2. Retain and maintain the applicable DD 577s for DISA's CO/AO, as well as ensure that the process to become a CO or AO is completed and the proper documentation approved.
3. Ensure there is an appropriate understanding between DISA and its service organization on the responsibilities of processing travel transactions, retaining documentation to be readily available for request, and updating the necessary processes noted within the SOPs.

IV. Budgetary Resources *(Repeat Condition)*

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

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

A. Invalid Unfilled Customer Orders

Background: USSGL Account 422100, *Unfilled Customer Orders (UCO) Without Advance*, 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 GF reported approximately $172.7 million in UCOs Without Advance on its June 30, 2020 trial balance. The account balance is supported by a subsidiary ledger that details information such as the fund, document number, order amount, and transaction date, among other unique identifying details for each UCO balance.

Condition: DISA reported 29 invalid UCOs, totaling $1.9 million, on its June 30, 2020 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 are 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 (as applicable) whether the requirement is still valid and accurate, future work will be conducted on the contract or UCO, future disbursements will be required to liquidate the dormant balance, and there is sufficient and readily available KSD to justify the remaining balance. However, not all dormant balances for physically completed contracts were identified and liquidated as of June 30, 2020.

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 close-out processing by DISA's Procurement Services Directorate (PSD), and delays in the Defense Contract Audit Agency (DCAA) audits. DISA officials indicated that they were reluctant to liquidate individual amounts in the detailed accounting records until these steps have been completed. However, DISA did not have a process in place to estimate invalid UCOs in this status in order to record a year-end adjustment for financial reporting purposes.

Effect: Invalid UCOs resulted in inaccurate reporting by DISA and an known overstatement of $1.9 million as of June 30, 2020 on the Spending Authority from Offsetting Collections line on the FY 2020 SBR. Because DISA did not provide sufficient evidence to support a conclusion on a number of the samples, it was not practical to statistically evaluate those exceptions against the UoT.

Recommendations: Kearney recommends that DISA perform the following:

1. Update 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 update existing policies, which require PSD to process contract actions timely once all goods and services have been provided to the customer.
3. To the extent that invalid UCOs cannot be liquidated based on contractual or administrative matters, develop and implement a process to estimate invalid UCOs to determine whether a temporary adjustment is required for year-end financial reporting purposes.

B. Invalid Undelivered Orders

Background: UDOs represent the amount of goods and/or services ordered which have not been actually or constructively received; these can be unpaid or prepaid. Federal agencies record UDOs when they enter into an agreement, such as a MIPR, contract, or sales order, to receive goods and/or services. Agencies should maintain policies and procedures to ensure that UDOs represent valid future outlays.

DISA GF reported more than $2.5 billion in UDOs on its June 30, 2020 trial balance. The account balance is supported by a subsidiary ledger 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 did not have an effective dormant UDO control methodology in place as of June 30, 2020. Preliminary analysis of the UDO population showed approximately $25 million in known FY 2019 validity exceptions that remained open as of June 30, 2020.

Additionally, sample testing was not completed for the UDOs established prior to FY 2020 due to the issuance of an intent to disclaim on DISA GF for the FY 2020 financial statement audit and the agreed-upon Audit Continuation Methodology (ACM).

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 (as applicable) whether the requirement is still valid and accurate, future work will be conducted on the contract or UCO, future disbursements will be required to liquidate the dormant balance, and there is sufficient and readily available KSD to justify the remaining balance. However, DISA was unable to provide evidence that any dormant balances for physically completed contracts were identified and deobligated as of June 30, 2020.

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 close-out processing by DISA's PSD, and delays in the DCAA audits. DISA officials indicated that they were reluctant to deobligate individual amounts in the detailed accounting records until these steps have been completed. Although DISA had developed a contract close-out accrual to accrue estimated deliveries during contract close-out, DISA 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 approximately $25 million as of June 30, 2020 on the New Obligations and Upward Adjustments line on the FY 2020 SBR. The presence of the exceptions noted from the prior year is an indication that similar errors would be found in the population and, therefore, was an impediment to completing audit procedures.

Recommendations: Kearney recommends that DISA perform the following:

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

C. Untimely Unfilled Customer Order Transactions

Background: USSGL Account 422100, *UCOs Without Advance*, represent orders for goods and/or services to be furnished for other Federal Government agencies and for the public. Federal agencies record UCOs Without Advance when they enter into an agreement, such as a MIPR, contract, or sales order, to provide goods and/or services when a customer cash advance is not received. These orders provide obligational budgetary authority for reimbursable programs. DISA GF reported approximately $172.7 million in UCOs Without Advance on its June 30, 2020 trial balance.

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

Cause: DISA did not have effective transaction-level control procedures to ensure customer orders were recorded in the financial management system in a timely manner. Further, DISA did not have effective agency-wide monitoring controls to ensure timely recording of contracting actions.

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

- Goods or services may be provided prior to an authorized customer order certifying the availability of funds or prior to an authorized contract or purchase order being established
- The Antideficiency Act could be violated if obligations are recorded against a customer order that had not been established in the financial management system.

Recommendations: Kearney recommends that DISA update controls to ensure the timely creation, approval, and recording of customer orders. Specifically, Kearney recommends that DISA perform the following:

1. Implement controls at the obligation level to ensure that customer orders are recorded in a timely manner to support funds control.
2. Develop and implement a process to monitor the execution of DISA policies and procedures related to establishing customer orders.

D. 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 GF reported approximately $2.5 billion in UDOs on its June 30, 2020 trial balance.

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

Cause: DISA did not establish 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 establish 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 Act.

Recommendation: Kearney recommends that DISA perform the following:

1. Update 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.

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E. Inaccurate Recoveries of Prior-Year Unpaid Obligations

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

DISA GF reported $51 million in recoveries, exclusively to USSGL 487100, on its June 30, 2020 trial balance. The account balance is supported by transaction-level detail that contains information such as document number, project number, and amount, among other identifying details.

Condition: DISA reported $4 million in Downward Adjustments of Prior-Year Unpaid Undelivered Orders, Obligations – Recoveries on its June 30, 2020 trial balance that were not actually recoveries of a prior-year obligation. The error related to a data element administrative change to update the obligation type from Reimbursement to Direct Cite.

In addition, DISA was not able to provide sufficient audit evidence to support $1.7 million of Downward Adjustments of Prior-Year Unpaid Undelivered Orders, Obligations – Recoveries on its June 30, 2020 trial balance.

Cause: DISA did not have effective control procedures to ensure that transactions recorded to USSGL 487100 were properly supported downward adjustments to prior-year obligations and not administrative funding changes.

Effect: SBR Lines 1051, *Unobligated balance from prior year budget authority, net (discretionary and mandatory)*, and 2190, *New obligations and upward adjustments (total)*, were misstated due to $4 million (known) and $1.7 million (potential) errors as of June 30, 2020.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement policies to ensure that all transactions recorded to USSGL 487100 reference obligations recorded in a prior FY.
2. Perform a quarterly review of USSGL 487100 transactions to ensure that any transactions are produced by accounting events (i.e., contractual deobligation and not administrative fund changes).

V. Information Technology (*Repeat Condition*)

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

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

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

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

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

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

Recommendations: Kearney recommends that DISA perform the following:

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

APPENDIX A: STATUS OF PRIOR-YEAR FINDINGS

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included with the audit report on the Defense Information Systems Agency (DISA) fiscal year (FY) 2019 financial statement, we noted several issues that were related to internal control over financial reporting. The status of the FY 2019 internal findings is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2019 Status	FY 2020 Status
Fund Balance with Treasury	Material Weakness	Material Weakness
Accounts Receivable/Revenue	Material Weakness	Material Weakness
Accounts Payable/Expense	Material Weakness	Material Weakness
Budgetary Resources	Material Weakness	Material Weakness
Information Technology	Material Weakness	Material Weakness

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 ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the DISA GF's financial statements, and we have issued our report thereon dated November 9, 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 the DISA GF, we performed tests of its compliance with certain provisions of applicable 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 the DISA GF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03 and which are described in the accompanying Schedule of Findings.

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

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

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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 (AFR). 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 audit performed 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
November 9, 2020

Schedule of Findings

Noncompliance and Other Matters

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

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

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

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

Federal Financial Management Systems Requirements

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

FFMIA requires financial management system owners to implement and monitor Federal information system security controls to minimize the impact to the confidentiality, integrity, and availability of the systems and data. The primary means for Federal entities to provide these controls is the implementation and monitoring of controls defined in National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. DISA deviated from recommended controls defined in NIST SP 800-53, Rev. 4, as discussed in Section V, "Information Technology," in our *Report on Internal Control over Financial Reporting*. These deviations related to access controls, implementation of complementary user entity controls (CUEC), 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 V, *Information Technology*, in our *Report on Internal Control over Financial Reporting*. These deviations represent DISA's noncompliance with FISMA. By not complying with FISMA, DISA's security controls may adversely affect the confidentiality, integrity, and availability of information and information systems. See Section V, "Information Technology," in the accompanying *Report on Internal Control over Financial Reporting* for additional details.

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

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

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

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

* * * * *

DISA Management 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 final audit report for DISA's FY 2020 General Fund (GF) 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 a placed renewed focus on successful resolution of the remaining audit issues during the upcoming audit cycle.

SWONGER.RICHARD.G.[redacted]

Digitally signed by SWONGER.RICHARD.G.1[redacted]
Date: 2020.11.10 17:10:13

GREG SWONGER
Director, Accounting Operations
and Compliance