Defense Information Systems Agency
Working Capital 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 Working Capital Funds, 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 WCF financial statements, and a performance and financial section which contains the auditor's signed report. DISA's FY 2020 audit for WCF has been conducted as an audit continuation.

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 can provide reasonable assurance 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

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
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".

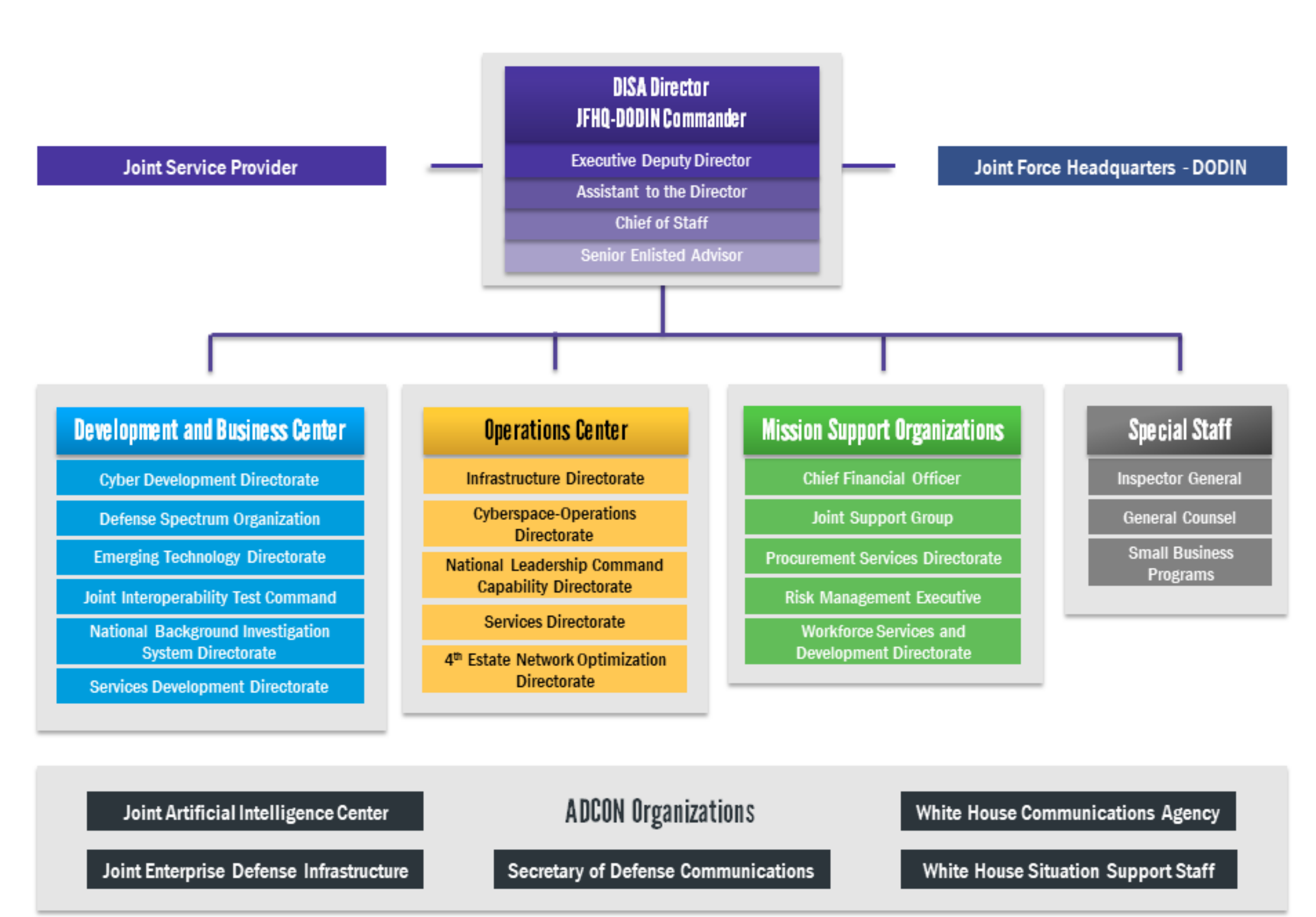
DISA serves the needs of the president, vice president, Secretary of Defense (SECDEF), Joint Chiefs of Staff (JCS), combatant commands (COCOMs), and other DoD components during peace and war. In short, DISA provides global net-centric solutions in the form of networks, computing infrastructure, and enterprise services to support information sharing and decision making for the nation's warfighters and those who support them in the defense of the nation. 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 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. In September 1992, DISA's role in DoD information management continued to expand with implementation 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 August 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 provides 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.

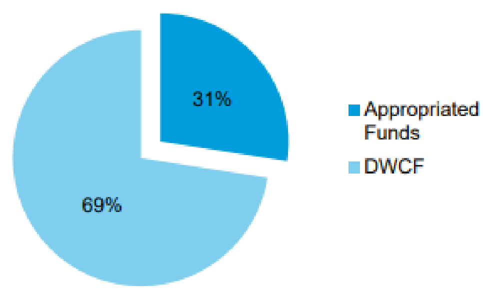
Resources: DISA is a combat support agency of the DoD with a $11.4 billion-dollar annual budget.

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 6,424 civilian employees; approximately 1,445 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, Maryland 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 percent of its people based at Fort Meade and the National Capital Region (NCR), and 45 percent 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.

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		
Operate and Defend	Adopt, Buy, and Create Solutions	Enable People & Reform the Agency

Strategic Objectives		
1.1 Modernize the Infrastructure 1.2 Enhance Operations	2.1 Optimize for the Enterprise 2.2 Strengthen Cybersecurity 2.3 Drive Innovation	3.1 Enable People 3.2 Reform the Agency

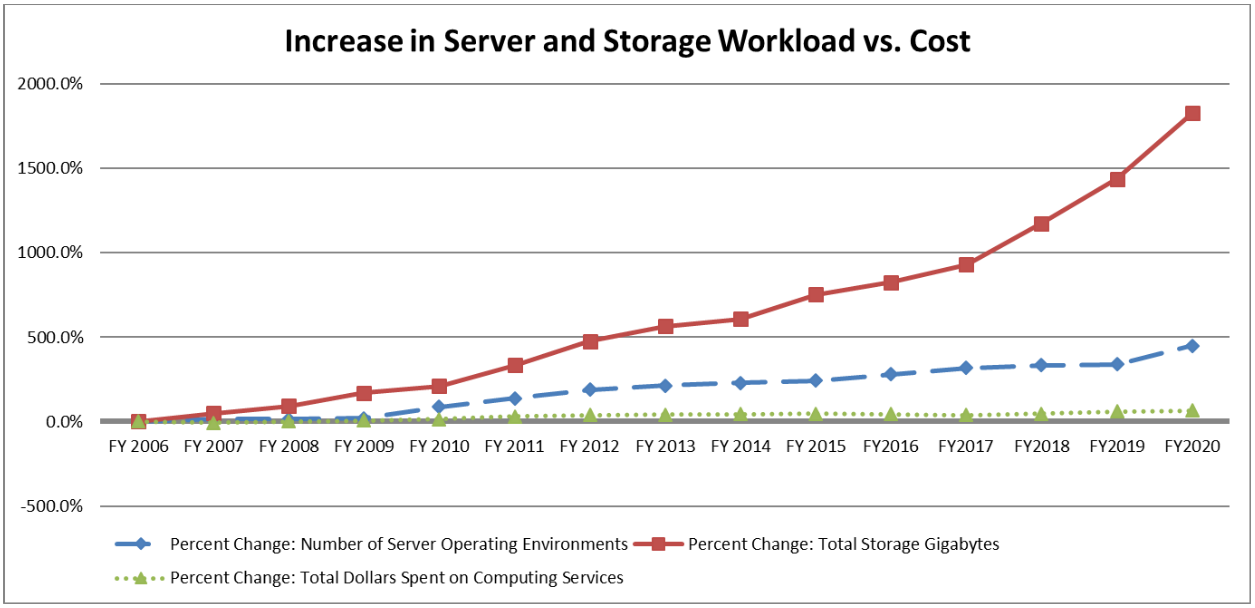
DISA's strategic plan framework outlines mutually reinforcing programs, projects, and initiatives that link the three goals to DISA's mission. To operate and defend, adopt, buy, and create solutions, and enable people and reform of the agency, ensures DISA conducts DODIN operations for the joint warfighter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

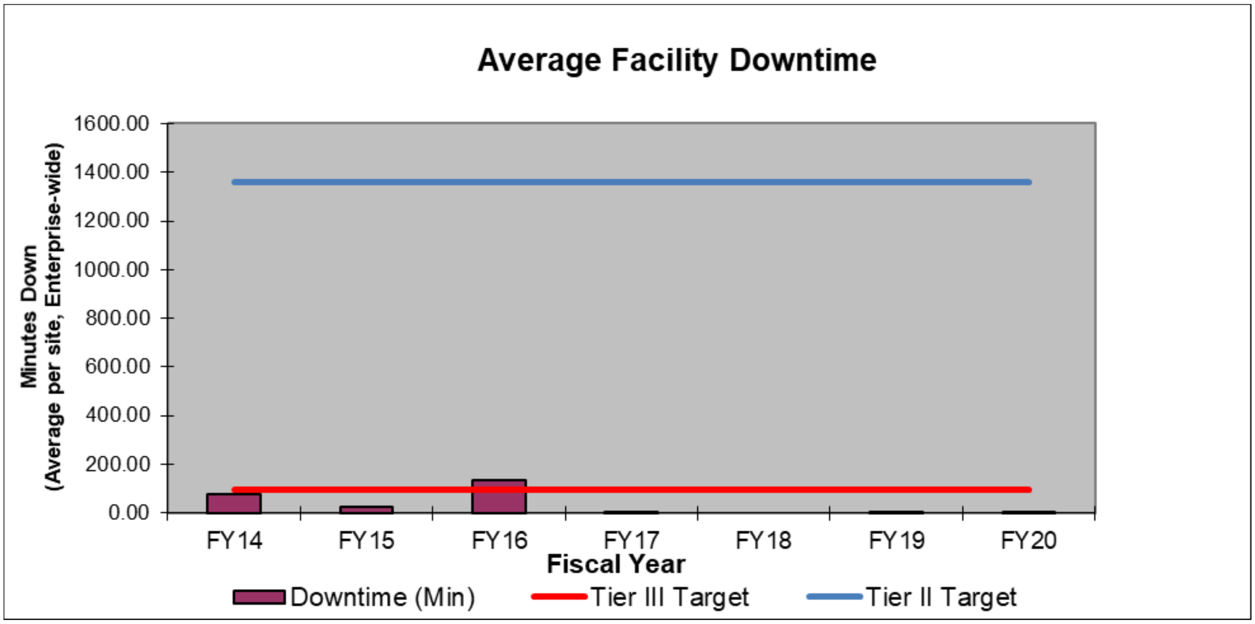
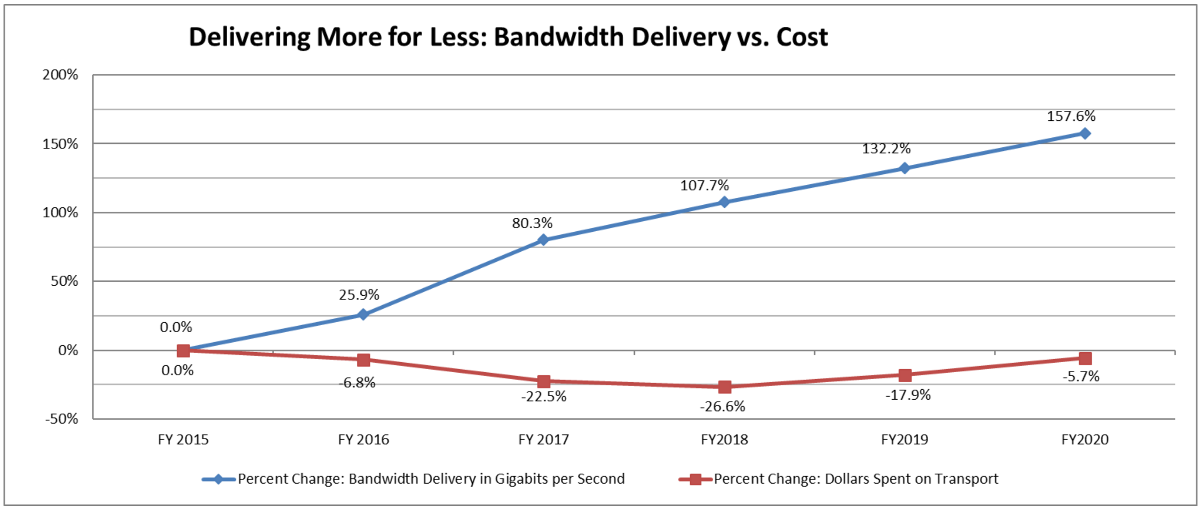


Figure 1-Capacity Services Contract Equipment Availability

	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. 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 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. 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 DISA senior managers. The committee is tasked with developing, raising, and resolving matters of financial compliance and internal controls with the purpose of ensuring DISA's consistent demonstration of accurate and supportable financial reports. The committee develops and enforces guidance established for this purpose.

Defense Working Capital Fund Financial Highlights

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

Executive Summary

DISA WCF reflect the results of budget execution that saw the fund decrease \$81.1 million for a total of \$354.7 million on its unobligated balance available, as compared to 4th Quarter, FY 2019.

- The Consolidated Statement of Net Cost reflects a loss, through 4th Quarter, FY 2020 of \$442.8 million and includes the non-recoverable depreciation expense for network equipment transferred to DISA WCF (TSEAS PE55).

- Obligations incurred decreased by \$437 million, in comparison to the 4th Quarter of last year.

- Cash levels remained positive through the 4th Quarter, FY 2020 at 9.7 days of operating cash.
- Beginning in fiscal year 2020, DISA WCF began budgeting and executing as a "one-fund" entity, to present the one-fund execution within the Defense Departmental Reporting System - Budgetary (DDRS-B) as well as DDRS-Audited Financial Statement (AFS), the intra-DISA WCF business (CS-TSEAS) is removed from the DDRS-B consolidated statements/trial balances prior to finalization and importing into AFS. Refer to Footnote 1.D. for details identifying the impact by United States Standard General Ledger (USSGL) for the Intra-DISA WCF Business.

CONSOLIDATED STATEMENT OF NET COST

The Statement of Net Cost presents the cost of operating DISA programs. The goal of the revolving fund is to break even over the long term as identified in the budget, thus driving toward an objective where a profit or loss is not a target over time, but rather nets to zero.

- Net Cost of Operations increased \$386.1 million (680 percent) between 4th Quarter, FY 2019 and 4th Quarter, FY 2020 primarily due to the increase in gross cost of \$677 million between fiscal years.

Figure 2-Net Cost of Operations

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
CS	$ 122,252	$ 33,763	$ 88,489	262%
TSEAS	322,622	22,970	299,653	1305%
Component	(2,082)	-	(2,082)	-100%
Total	$ 442,792	$ 56,733	$ 386,059	680%

WCF Net Cost of Operations includes non-recoverable costs such as depreciation expense and imputed costs.

Gross Cost- Gross Cost totaling $8.1 billion increased $676.9 million (9 percent) from 4th Quarter, FY 2019 to 4th Quarter, FY 2020. In accordance with regulations and guidance, this reflects the full cost of DISA WCF to include recoverable and non-recoverable cost. The primary drivers contributing to the net increase in gross costs are highlighted in the following table:

Figure 3- Gross Cost

(thousands)

DISA WCF (thousands)	9/30/2020	9/30/2019	Inc/Dec	% Chg.
Total Gross Cost	$8,070,483	$7,393,536	$ 676,947	9%
Less: PE56 Cost	5,700,534	5,162,629	537,905	10%
Less: Non-Recoverable Depreciation	189,565	51,194	138,371	270%
Total DISA WCF Operating Cost	$2,180,384	$2,179,712	$ 671	0%
TSEAS (PE55)				
Transport Services	546,659	464,968	81,691	18%
Fourth Estate Network Optimization	68,062	-	68,062	100%
Delivery Services	163,431	233,898	(70,467)	-30%
Cybersecurity Activities	274,104	297,235	(23,131)	-8%
CS (PE54)				
Rate Based Server Storage Infrastructure	113,311	-	113,311	100%
Rate Based Server Basic	-	89,378	(89,378)	-100%
Rate Based Unisys Mainframe	-	55,087	(55,087)	-100%
Rate Based Server Storage	49,886	100,288	(50,402)	-50%
Reimbursable Pass Through Unisys Mainframe	53,374	-	53,374	100%
Costs for Remaining Programs	$ 911,556	$938,858	$ (27,302)	-3%

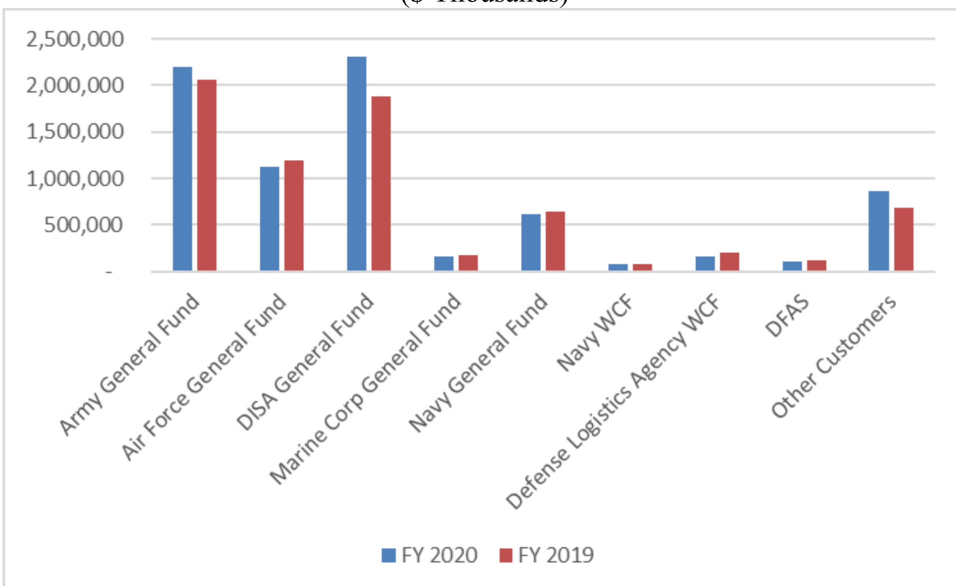
- Non-recoverable depreciation increased $138.4 million between fiscal years due to the transfer-in of general property, plant, and equipment from DISA General Fund (GF) without reimbursement and for DISA WCF to report the property associated with the DISN in the financial statements as the preponderant user.

Earned Revenue - Earned Revenue totaling $7.6 billion increased $290.9 million from 4th Quarter, FY 2019 and 4th Quarter, FY 2020.

- The Army, Air Force and DISA GF continue to be DISA WCF's biggest customers.

The bar chart below reflects earned revenue per customer for FY 2020 and FY 2019.

($ Thousands)



Net Cost of Operations – Some major drivers of the change in net cost of operations between fiscal years include the following:

- Non-recoverable depreciation expense increased $138.4 million due to the transfer-in of general property, plant, and equipment from DISA GF without reimbursement and for DISA WCF to report the property associated with the DISN in the financial statements as the preponderant user.
- Computing Services net cost increased in the Rate Based Server Basic for $38.8 million and the Rate Based Server/Storage Infrastructure for $31.4 million. Server Basic was split in FY 2020 between Cyber/Security Services, Systems Administration, and Sever/Storage Infrastructure to provide mission partners more granular details on the services they are acquiring.
- Computing Services net cost increased between fiscal years in the Rate Based Floor Space Rental for $18.5 million. This is a result of the FY20 rate restructure, the Data Center infrastructure costs now being captured, and is slightly offset by lower customer adoption at this point in the fiscal year.
- Telecommunication Transport Services gross cost increased $81.7 million between fiscal years resulting in a net cost increase of the same amount.
- Telecommunication DISN Infrastructure Services Revenue net cost increased $71 million between fiscal years.

- Telecommunications Delivery Services gross cost decreased $70.5 million between fiscal years resulting in a net cost decrease of the same amount.
- Reimbursable Telecommunication Services net cost decreased $24.4 million between fiscal years.
- Enterprise Acquisition Services for Fifth Estate Center net cost increased $111.5 million between fiscal years.
- Contracting and Acquisition Support gross cost increased $96.3 million between fiscal years resulting in a net cost increase of the same amount.
- Information Technology Contracts net cost decreased $112.7 million between fiscal years.

CONSOLIDATED BALANCE SHEET

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

Assets

Total assets of $2.1 billion are comprised primarily of Fund Balance with Treasury ($197.5 million), Intragovernmental accounts receivable ($964.2 million), and General Property, Plant & Equipment (PP&E) ($890.6 million).

Fund Balance with Treasury **-** The following chart displays fiscal year to date (FYTD) net cash flow from current year operations (collections less disbursements) reported to Treasury for FY 2020 and FY 2019.

Figure 4-Fund Balance with Treasury

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
CS Beginning Balance	$ 267,695	$ 263,013	$ 4,683	2%
CS YTD	(136,819)	4,683	(141,502)	-3022%
CS Total	130,876	267,695	(136,819)	-51%
TS Beginning Balance	284,850	275,918	8,932	3%
TS YTD	(218,204)	8,932	(227,136)	-2543%
TS Total	66,646	284,850	(218,204)	-77%
Total Beginning Balance	552,545	538,930	13,615	3%
YTD	(355,023)	13,615	(368,638)	-2708%
Total ITD Balance	$ 197,522	$ 552,545	$ (355,023)	-64%

- The $197.5 million cash balance at September 30, 2020 is comprised of a $552.5 million current year beginning balance and a FYTD $355 million decrease from current year operations (includes capital outlays).

- The $355 million decrease is $162.4 million less than the $192.6 million forecasted decrease in cash as reflected in the FY 2020 BES dated February 2020, with actual disbursements being $1.1 billion over plan and collections being $951.4 million over plan.

- The $197.5 million WCF ITD cash balance represents approximately 9.7 days of cash on hand ($197.5M/20.3M).

- Amounts recorded in the general ledger for Fund Balance with Treasury (FBWT) have been 100 percent reconciled to amounts reported in the Defense Finance and Accounting Service (DFAS) CMR, representing DISA WCF's portion of the TI97 .005 account balances reported by Department of Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level.

Accounts Receivable, Net - Accounts Receivable increased $92.4 million (11 percent). The largest increase is within the TSEAS intragovernmental receivables. Increase is in Enterprise Acquisition Services for IT Contracts, Enterprise License Agreements and Telecommunication Contracts as well as in Computing Services for Army and Air Force customers. This is offset by decreases in Telecommunications Services, specifically Transport Services, Security and Compliance Services and Cybersecurity Services.

The table below compares current year to prior year intragovernmental and public receivable balances.

Figure 5-Accounts Receivable, Net

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
CS				
Intragovernmental	$ 74,351	$ 62,993	$ 11,358	18%
Public	84	40	44	111%
TS				
Intragovernmental	988,394	923,478	64,917	7%
Public	1,512	6,540	(5,028)	-77%
Component				
Intragovernmental	(98,584)	(119,658)	21,074	-18%
Public	-	-	-	0%
Total				
Intragovernmental	964,161	866,812	97,348	11%
Public	1,596	6,580	(4,984)	-76%
Total Accounts Receivable	$ 965,757	$ 873,392	$ 92,365	11%

General Property, Plant and Equipment, Net – DISA WCF General PP&E consists primarily of equipment used by DISA organizations to deliver computing services to customers in DISA Computing Ecosystem and telecommunication services over the DISN.

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

Figure 6-General PP&E, Net

(thousands)

DISA WCF		9/30/2020		9/30/2019		Inc/Dec	% Chg.
CS	$	219,521	$	199,401	$	20,120	10%
TSEAS		671,083		605,426		65,656	11%
Total	$	890,604	$	804,827	$	85,777	11%

- General Property, Plant and Equipment (PP&E) increased $85.8 million (11 percent) and includes capital assets funded by DISA WCF operations, capital assets supporting the infrastructure of the services offered by the WCF that are transferred in from DISA GF without reimbursement, as well as current period depreciation expense on existing assets. The depreciation expense associated with these capital assets is non-recoverable.

- Non-Recoverable Depreciation increased $138.4 million between fiscal years due to the transfer-in of general property, plant, and equipment from DISA GF without reimbursement and for DISA WCF to report the property associated with the DISN in the financial statements as the preponderant user.

Over 70 percent of the WCF PP&E balances are comprised of the following categories:

Figure 7- PP&E-Net Book Value

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
Net Book Value	$ 890,604	$ 804,827	$ 85,777	
CS PP&E	219,521	199,401	20,120	25%
Joint Regional Security Stacks	196,503	196,556	(54)	22%
Multiprotocol Label Switching	89,472	104,769	(15,297)	10%
Optical Transport Network	69,601	127,687	(58,086)	8%
TSEAS DPAS Values	38,586	55,379	(16,794)	4%
Fiber IRUs	41,266	52,819	(11,554)	5%
TSEAS Assets Pending	71,077	32,641	38,437	8%
Subtotal	$ 758,186	$ 807,882	$ (43,228)	85%
Non-Recoverable Depreciation	189,565	51,194	138,371	21%
Total	$ 947,751	$ 859,076	$ 95,144	106%

Other Assets- Primarily consist of prepaid security investigations and increased $841 thousand (100 percent) within TSEAS as the result of an adjustment to reconcile trading partner data.

Other Assets balances as of September 30, 2020 and 2019 are as follows:

Figure 8-Other Assets

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
TSEAS	841	-	841	100%
Total	$ 841	$ -	$ 841	100%

Other Assets increased $841 thousand (100 percent) within TSEAS as the result of an adjustment to reconcile trading partner data.

Liabilities

Total liabilities of $974.9 million is comprised primarily of intragovernmental accounts payable ($26.3 million), intragovernmental other liabilities ($4.7 million), non-federal accounts payable ($887 million), Other Federal Employment Benefits ($4.4 million), non-federal other liabilities ($52.5 million).

Liabilities Not Covered by Budgetary Resources **-** Total Liabilities Not Covered by Budgetary Resources decreased $459 thousand (8 percent) and is comprised of Other Liabilities, Military Retirement Benefits and the Unfunded FECA liability.

Figure 9-Total Liabilities Not Covered by Budgetary Resources

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
CS	$ 3,064	$ 3,321	$ (257)	-8%
TSEAS	2,370	2,572	(202)	-8%
Total	$ 5,434	$ 5,893	$ (459)	-8%

Liabilities Covered by Budgetary Resources - Liabilities Covered by Budgetary Resources increased $16 million (2 percent). The largest portion of the balance is comprised of Enterprise Acquisition Services, telecommunications contracts as well as IT contracts. The table below compares current year to prior year liabilities covered by budgetary resources and includes the public accounts payable balances.

Figure 10-Total Liabilities Covered by Budgetary Resources

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
CS	$ 135,005	$ 162,969	$ (27,964)	-17%
TSEAS	956,985	934,102	22,882	2%
Component	(98,584)	(119,658)	21,074	-18%
Total	$ 993,406	$ 977,413	$ 15,993	2%

From a customer funding perspective, DISA GF and Army continue to provide the most customer funded contract requirements associated with the Public Accounts Payable balance. The increase in leave liabilities is primarily attributed to the increase in the number of full time employees over 4th Quarter, FY 2019. The decrease in PE54 is the result of timely billing from TSEAS allowing the accruals/invoices to be liquidated.

Other Liabilities - Other Liabilities increased $13.3 million (30 percent) primarily driven by the increase in Accrued Funded Payroll and Benefits for $11.2 million.

Figure 11-Other Liabilities

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
CS				
Intragovernmental	$ 2,791	$ 2,084	$ 706	34%
Public	26,568	21,646	4,923	23%
TS				
Intragovernmental	1,945	1,403	541	39%
Public	25,918	18,760	7,159	38%
Consolidated				
Intragovernmental	4,736	3,488	1,248	36%
Public	52,486	40,405	12,080	30%
Total Other Liabilities	$ 57,222	$ 43,893	$ 13,329	30%

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

- Transfers in/out without reimbursement increased $158.4 million (254 percent) primarily due to the transfer-in of general property, plant, and equipment from DISA GF without reimbursement and for DISA WCF to report the property associated with the DISN in the financial statements as the preponderant user.

- Imputed financing costs absorbed by others increased $2.9 million (5 percent) due to an increase in imputed cost related to employee benefits.

- Net Cost of Operations increased $386.1 million (680 percent) as discussed in the Consolidated Statement of Net Cost section.

COMBINED STATEMENT OF BUDGETARY RESOURCES (SBR)

The SBR provides information about how budgetary resources were made available and their status at the end of the period. It is the only financial statement derived entirely from the budgetary USSGL accounts, and is presented in a combined, not consolidated basis to remain consistent with the SF133, Report on Budget Execution and Budgetary Resources. During 2nd Quarter, FY 2020 DISA WCF put in place corrective action plans to mitigate the risk of overstatement of the Undelivered Orders and Unfilled Customer Orders for balances that are aged and in a high-risk category of not being delivered. This effort resulted in a reduction in Undelivered Orders of $271.7 million and Unfilled Customer Orders of $214.5 million. These corrective actions will continue through the remaining fiscal year resulting in a downward trend in the future adjusting entries for both UDO and UCO as actual adjustments occur. The results and variances of key amounts reported in the SBR follows:

Figure 12-Statement of Budgetary Resources

(thousands)

DISA WCF	9/30/2020	9/30/2019	Inc/Dec	% Chg.
CS				
Obligations Incurred	$ 1,061,129	$ 1,075,898	$ (14,769)	-1%
Unobligated Balances	75,997	134,959	(58,962)	-44%
Contract Authority	47,772	42,255	5,517	13%
Unfilled Customer Orders	97,832	77,675	20,157	26%
TS				
Obligations Incurred	7,834,248	7,175,026	659,222	9%
Unobligated Balances	273,290	688,714	(415,424)	-60%
Contract Authority	185,178	2,836	182,343	6430%
Unfilled Customer Orders	2,953,884	3,251,270	(297,385)	-9%
Component				
Obligations Incurred	(1,081,410)	-	(1,081,410)	-100%
Unobligated Balances	5,431	-	5,431	-100%
Contract Authority	-	-	-	0%
Unfilled Customer Orders	(976,983)	-	(976,983)	-100%
Total				
Obligations Incurred	$ 7,813,967	$ 8,250,924	$ (436,957)	-5%
Unobligated Balances	$ 354,718	$ 823,673	$ (468,955)	-57%
Contract Authority	$ 232,950	$ 45,091	$ 187,859	417%
Unfilled Customer Orders	$ 2,074,733	$ 3,328,945	$(1,254,212)	-38%

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

Figure 13-Obligations Incurred

(thousands)

	9/30/2020	9/30/2019	Inc./(Dec.)	% Chg.
Total Obligations Incurred	$ 7,813,967	$ 8,250,924	$ (436,957)	-5%
Less: PE56 Obligations Incurred	$ 5,790,118	$ 5,217,434	$ 572,684	11%
Total DISA WCF Funded Obligations	$ 2,023,849	$ 3,033,491	$ (1,009,642)	-33%
TSEAS (PE55)				
Fourth Estate Network Optimization	$ 67,180	$ 8,966	$ 58,215	100%
Maintenance	$ 109,584	$ 97,575	$ 12,008	12%
Commercial Satellite Services	$ 582,222	$ 571,211	$ 11,011	100%
Network Support Services	$ 23,809	$ 42,882	$ (19,073)	-44%
CS (PE54)				
Rate Based Floor Space Rental	$ -	$ 29,116	$ (29,116)	-100%
Rate Based Server Basic	$ 116	$ 20,347	$ (20,231)	100%
Reimbursable Pass-Through Customer Management	$ (52)	$ 17,576	$ (17,628)	-100%
Reimb Pass-Through Server Itanium IVMS/Ded HW Capacity Only	$ 17,828	$ 30,975	$ (13,147)	-42%
Reimb Pass-Through Server Ded DISA Managed Non-Labor	$ 5,674	$ 16,088	$ (10,414)	-65%
Reimbursable Pass-Through Comm Dedicated Labor Support	$ 1,584	$ 9,360	$ (7,776)	-83%
Reimbursable Pass-Through Special Svcs LOB Dedicated Labor	$ 9,263	$ 16,082	$ (6,819)	-42%
Rate Based Server Storage	$ 34,891	$ 41,569	$ (6,679)	-16%
Reimbursable Pass-Through Mainframe Ded Non-Labor	$ 22,746	$ 27,760	$ (5,015)	-18%
Rate Based Global Content Delivery Service	$ 38,201	$ 7,911	$ 30,290	383%
Rate Based Server Systems Administration	$ 20,047	$ -	$ 20,047	-100%
ReimbursablePass Through Communication Dedicated Hardware Capacity Only	$ 17,881	$ -	$ 17,881	-100%
ReimbursablePass Through Communication Dedicated DISA Managed Non-Labor	$ 14,605	$ -	$ 14,605	-100%
Rate Based Global Service Desk	$ 30,518	$ 16,133	$ 14,385	-100%
Component (DISA99)				
Intra-WCF One Fund Adjustment	$ (1,081,410)	$ -	$ (1,081,410)	-100%
All Other Programs Balances	$ 2,109,163	$ 2,079,938	$ 29,225	1%

- Largest decrease for Component (DISA99) was due to removing the Intra-DISA WCF Business from DDRS-B.
- Largest increase for TSEAS (PE55) was in the DISN Reimbursable Services business line, specifically in Fourth Estate Network, Maintenance and Commercial Satellite Services.

- Largest decreases for Computing Services (PE54) were in Rate Based Floor Space Rental, Rate Based Server Basic, and Reimbursable Pass-Through Customer Management. This is offset by increases in Rate Based Global Content Delivery Services and Server Systems Administration.

Unobligated Balance, End of Period – Reflects the remaining balance in the following accounts at the end of the period; Apportionments – Anticipated Resources (USSGL 4590), Allotments – Realized (USSGL 4610), and Commitments – Subject to Apportionment (USSGL 4700).

The Unobligated Balance as of September 30, 2020 decreased $469 million between fiscal years is primarily at the Component level and was due to adjusting the Intra-DISA WCF Business for DDRS-B as well as more obligations incurred compared to orders received within CS and TSEAS, specifically in IT contracts and enterprise license agreements.
Contract Authority - Balances for approved capital purchases increased $187.9 million between fiscal years. The increase within Telecommunication Services and Enterprise Acquisition Services is in ADPE & Telecommunications Equipment and Software Development.

Unfilled Customer Orders - Decreased $1.3 billion between fiscal years is primarily at the Component level and was due to removing the Intra-DISA WCF Business from DDRS-B. The remaining decrease in TSEAS is attributed to in EAS Information Technology Contracts, specifically Other Reimbursables and Multiple Awards. This is offset by increases in EAS Enterprise License Agreements and Telecom Services, Reimbursable Telecommunications Services and Customer Funded Projects.

Outlays, Net – Increased $368.6 million between fiscal years and is in line with the planned increase of $192.6 million. Biggest increase is for TSEAS in the amount of $227.1 million.

RECONCILIATION OF NET COST TO NET OUTLAYS (Note 24)
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 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 DISA's 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).

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, 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 on 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 percent). 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 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 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:

- 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)
- Inspector General (IG)
- Joint Force Headquarters DODIN (JFHQ-DODIN)
- Joint Service Provider (JSP)
- Operations Center (OC)
- Procurement Services Directorate (PSD)
- Risk Management Executive (RME)
- White House Communications Agency (WHCA)
- Workforce Services and Development Directorate (WSD)

List of all Component material AUs related to ICOR

- Office of the Chief Financial Officer (OCFO)
- Operations Center (OC)
- Procurement Services Directorate (PSD)

Summary of Internal Control Evaluation Approach: DISA's RMIC Program is executed in accordance with applicable laws and guidance and is managed through a three-tiered approach which provides a structure to identify risk at an enterprise level as well as more granular level. It includes the DISA Director and senior management, the internal control team and AUMs who manage at the Program/Directorate level within the organization. DISA uses a top-down approach, as well as bottom-up approach to execute its internal control program.

Figure 14-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

Figure 15-Overal 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 Memo, Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year (FY) 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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Date: 2020.10.07 20:55:24 -04'00'

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 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.

DISA is uniquely positioned to provide the kind of streamlined, rationalized enterprise solutions the department is looking for to effect IT transformation. 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). 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).

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

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

Figure 16-Balance Sheet

	2020	2019
Intragovernmental assets:		
Fund Balance with Treasury (Note 3)	$ 197,522	$ 552,545
Accounts receivable, Net (Note 6)	964,161	866,815
Other Assets (Note 10)	841	-
Total Intragovernmental Assets	1,162,524	1,419,357
Other than intragovernmental assets:		
Accounts receivable, net (Note 6)	1,596	6,580
General property, plant and equipment, net (Note 9)	890,604	804,827
Total Assets	$ 2,054,724	$ 2,230,764
Liabilities (Note 11)		
Intragovernmental liabilities:		
Accounts payable	$ 26,266	$ 45,245
Other Liabilities (Notes 15 and 17)	4,736	3,487
Total intragovernmental liabilities	31,002	48,732
Other than intragovernmental liabilities:		
Accounts payable	887,085	889,395
Military Retirement and Other Federal Employment Benefits (Note 13)	4,363	4,773
Other Liabilities (Notes 15 and 17)	52,486	40,406
Total liabilities	974,936	983,306
Commitments and contingencies (Note 17)		
Net Position:		
Total Cumulative Results of Operations -Other Funds	1,079,788	1,247,458
Total net position	1,079,788	1,247,458
Total liabilities and net position	$ 2,054,724	$ 2,230,764

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

Department of Defense
Defense Information Systems Agency WCF
For the Years Ended Sept. 30, 2020 and 201921
($ in thousands)

Figure 17-Statement of Net Cost

Gross Program Costs (Note 10, Note 12, Note 14)	2020	2019
Gross Costs (Note 10, Note 12)	$ 8,070,483	$ 7,393,535
Less: Earned Revenue (Note 11)	(7,627,692)	(7,336,803)
Net Cost of Operations	442,791	56,732

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

Department of Defense
Defense Information Systems Agency WCF
For the Years Ended Sept. 30, 2020 and 2019
($ in thousands)

Figure 18-Statement of Changes in Net Position

CUMULATIVE RESULTS OF OPERATIONS	**2020**	**2019**
Beginning Balance	$ 1,247,458	$1,188,971
Non-exchange revenue	(1)	1
Transfers-in/out without reimbursement	219,356	62,320
Imputed financing	55,767	52,900
Other	-	(2)
Total Financing Sources (Includes Funds from Dedicated Collections)	275,122	115,219
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections	442,791	56,732
Net Change in Cumulative Results of Operations	(172,045)	58,487
Total Cumulative Results of Operation	1,075,413	1,247,458
Net Position	$1,075,413	$1,247,458

Department of Defense
Defense Information Systems Agency WCF
For the Years Ended Sept. 30, 2020 and 2019
($ in thousands)

Figure 19-Statement of Budgetary Resources

	2020	2019
Budgetary Resources		
Unobligated balance from prior year budget authority, Net (Note 12)	$ 823,763	$ 981,399
Contract Authority (discretionary and mandatory)	232,951	45,091
Spending Authority from offsetting collections (discretionary and mandatory)	6,194,516	8,048,107
Total Budgetary Resources	7,251,230	9,074,597
Status of Budgetary Resources		
New obligations and upward adjustments (total)	6,896,513	8,250,924
Unobligated balance, end of year		
Apportioned, unexpired accounts	354,717	435,768
Unapportioned, unexpired accounts	-	387,905
Unexpired unobligated balance, end of year	354,717	823,673
Unobligated balance, end of year (total)	354,717	823,673
Total Budgetary Resources	7,251,230	9,074,597
Outlays, Net		
Outlays, net (total) (discretionary and mandatory) (Note 13)	337,744	(13,615)
Agency Outlays, net (discretionary and mandatory)	$ 337,744	$ (13,615)

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

Defense Information Systems Agency
Working Capital Fund
Notes to the Principal Statements
4th Quarter Fiscal Year 2020, ending September 30, 2020

DEFENSE INFORMATION SYSTEMS AGENCY
WORKING CAPITAL FUND

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

Note 1. Summary of Significant Accounting Policies

1A. Reporting Entity

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).

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 WCF has determined that there are not any other consolidation or disclosure entities or related transactions that are required to be disclosed within these notes.

1B. Mission of the 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 Joint Force Headquarters-DoD Information Network (JFHQ-DoDIN) organization on January 15, 2015, DISA serves as the joint operational arm of defense cyberspace operations for the DoD. The JFHQ-DoDIN exercises command and control of DoDIN operations and defensive cyber operations-internal defense measures globally in order to synchronize the protection of DoD component capabilities and to enable power projection and freedom of action across all warfighting domains. DISA operates under the direction, authority, and control of the DoD Chief Information Officer (CIO) who reports directly to the Secretary of Defense.

DISA receives funding through both congressional appropriations, referred to as DISA General Fund (GF), and by operating the information services activity group within the Defense-Wide Working Capital Fund (DWWCF). DISA working capital fund (WCF) consists of three business areas: Computing Services (CS), Telecommunications Services (TS), and Enterprise Acquisition Services (EAS). DISA WCF is a revolving fund established by law to finance a continuing cycle of operations for the information services activity with receipts derived from such operations. DISA GF is a separate reporting entity and not included herein.

DISA's 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."

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

1C. Basis of Presentation
The accompanying financial statements and footnotes have been prepared to report the financial position and results of operations of DISA WCF, as required by the Chief Financial Officers Act of 1990, 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 books and records of DISA in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136 "Financial Reporting Requirements", and DoD Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which DISA WCF is responsible unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

DISA WCF is able to present fairly, in material respects, all elements in accordance with U.S. GAAP and OMB Circular No. A-136 due to the implementation of SFIS compliant accounting systems.

In accordance with FASAB Statement of Federal Financial Accounting Standards (SFFAS) 47*:* *Reporting Entity*, in Note 26, *Disclosure Entities and Related Parties,* DISA WCF does not have relationships with DoD-sponsored federally funded research and development centers and DoD non-appropriated fund instrumentalities.

1D. Basis of Accounting
DISA WCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DISA WCF's sub-entities.

DISA WCF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis that is the summation of the Components less the Eliminations. Effective with FY 2020 reporting, the Statement of Budgetary Resources is presented on a combined basis that is the summation of the DoD Components; therefore intradepartmental activity has not been eliminated, however to facilitate the budget initiative for moving DISA WCF into a single fund (subhead/limit) the intra-DISA WCF balances for business between the TSEAS and CSD business components has been eliminated. The table below provides the impact of this change by USSGL.

Figure 20-Intra-DISA WCF One Fund Adjustment

(Thousands)

	Normal D/C	Debit Amount	Credit Amount
1310-Accounts Receivable	Debit	$ -	$ 98,584
2110-Accounts Payable	Credit	$ 98,584	$ -
4210-Anticipated Reimbursements	Debit	$ -	$ -
4221-Unfilled Customer Orders without Advance	Debit	$ -	$ 976,983
4251-Reimbursements and Other Income Earned-Receivable	Debit	$ -	$ 98,584
4590-Apportionments	Credit	$ -	$ -
4610-Allotments-Realized Resources	Credit	$ 1,417	$ -
4700-Commitments	Credit	$ -	$ 6,848
4801-Undelivered Orders - Obligations, Unpaid	Credit	$ 982,826	$ -
4871-Downward Adjustments of prior year Unpaid UDOs	Debit	$ -	$ 412
4901-Delivered Orders - Obligations, Unpaid	Credit	$ 98,584	$ -
5200-Revenue	Credit	$ 879,069	$ -
6100-Expense	Debit	$ -	$ 879,069

Figure 21-Intra-DISA WCF Collection and Outlay Top Sided Adjustment

(thousands)

Activity	USSGL	Amount
CS	4252	$ 127,135
TSEAS	4252	773,040
Total		$ (900,175)
CS	4902	$ (775,542)
TSEAS	4902	(141,912)
Total		$ 917,454
	Net Outlay	**$ 17,279**

Based on post-closing analysis, DISA WCF has incorporated a top side adjustment for TSEAS Accounts Payable/Expense and Accounts Receivable/Revenue that affected the following accounts.

Figure 22-DISA WCF TSEAS Accrual Adjustment

(thousands)

	Normal D/C	Debit Amount	Credit Amount
1310-Accounts Receivable	Debit	$ -	$ 19,530
2110-Accounts Payable	Credit	$ 23,905	$ -
4221-Unfilled Customer Orders without Advance	Debit	$ 19,530	$ -
4251-Reimbursements and Other Income Earned-Receivable	Debit	$ -	$ 19,530
4801-Undelivered Orders - Obligations, Unpaid	Credit	$ -	$ 23,905
4901-Delivered Orders - Obligations, Unpaid	Credit	$ 23,905	$ -
5200-Revenue	Credit	$ 19,530	$ -
6100-Expense	Debit	$ -	$ 23,905

DISA WCF has implemented SFIS compliant accounting systems and improved processes based on independent reviews and compliance with OMB Circular No. A-136 and U.S. GAAP.

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.

1E. Accounting for Intra-Entity, Intragovernmental, and Intergovernmental Activities

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

The Federal 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.

DISA WCF employs a trading partner reconciliation process throughout the year to validate DISA WCF buyer-side and seller-side balances and collaborates with its major DoD partners to identify and resolve material differences. DISA WCF also reconciles their buyer-side data with several tier one federal agencies including balances pertaining to Federal Employees' Compensation Act (FECA) transactions with the Department of Labor (DOL) and benefit program transactions with the Office of Personnel

Management (OPM). No adjustments are made for tier one agencies.

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

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

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

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

1F. Non-Entity Assets

Non-entity assets are not available for use in DISA's normal operations. DISA WCF maintains stewardship accountability and reporting responsibility but are not available for DISA WCF normal operations. ISA WCF nonentity assets are comprised of immaterial amounts (rounded to zero $000) of accumulated interest receivable, and accumulated penalties and administrative fees receivable as reported in the Monthly Debt Management Report Contract Debt System.

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

1G. Fund Balance with Treasury

The FBwT represents the aggregate amount of DISA WCF available budget spending authority available to pay current liabilities and finance future authorized purchases. DISA'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 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.

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

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

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

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

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

1I. Investments and Related Interest
DISA WCF does not invest in or report investments in U.S Treasury Securities.

1J. Accounts Receivable
Accounts receivable from other federal entities or the public include earned accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history. 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, an intergovernmental allowance for loss on receivables account has been mandated by Federal Accounting Standards Advisory Board Technical Bulletin 2020-1. DISA is working closely with DFAS and has determined that the intragovernmental allowance for FY2020 was immaterial.

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

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

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

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

DISA WCF PP&E consists of telecommunications equipment, computer equipment, computer software, assets under capital lease, construction in progress, and leasehold improvements whereby the acquisition cost falls within prescribed thresholds and the estimated useful life is two or more years. DISA WCF PP&E capitalization threshold is $250 thousand for asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $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 2 to 45 years.

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

In a 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. DISA WCF has now developed the capability for determining a more precise asset activation date using the month available for service method for these assets allowing for the associated depreciation expense to better match the period in which the benefit is derived as required by accounting standards.

DISA WCF provides government property to contractors to complete contract work, for which the contractors assume responsibility for asset control and accountability. DISA WCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds DoD capitalization threshold, GAAP requires it to be reported on DISA WCF's balance sheet.

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

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

1N. Other Assets

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

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

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

1O. 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 WCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. DISA WCF records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. DISA WCF, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds.

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

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

1P. Liabilities

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

1Q. Environmental and Disposal Liabilities

DISA WCF does have environmental and disposal liabilities.

1R. Other Liabilities
DISA WCF 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 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 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 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. 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 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*.

1S. Commitments and Contingencies

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

DISA 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. DISA 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*.

1T. Military and Civilian Retirement Benefits

DISA WCF 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, DISA WCF 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, DISA WCF does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

The majority of DoD employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while the majority of DoD employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. 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 (Thrift Savings Plan) to which the department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The department also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits 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.

1U. Revenues and Other Financing Sources

As a component of the government-wide reporting entity, the department 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.

The department'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.

The DoD receives congressional appropriations and funding as general, working capital (revolving), trust, and special funds. The Department 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 a 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.

Working capital funds (WCF) conduct business-like activities and receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions flowing through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," DISA WCF recognizes exchange revenue using the service-type revenue recognition policy. Under this method, revenue is considered earned and recognized, along with associated costs, at the time the service is rendered or performed, and not less frequently than monthly. These exchange revenues reduce the cost of operations. DISA WCF pricing policy for reimbursable agreements is to recover full cost and should result in no profit or loss (breakeven) within planned timeframes based on budget and planning projections.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," DISA WCF 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, DISA WCF 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.

1V. Recognition of Expenses

For financial reporting purposes, the DoD's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable and unbilled revenue.

1X. Treaties for Use of Foreign Bases

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

1Y. Use Of Estimates

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

1Z. Parent-Child Reporting

DISA WCF is not party to allocation transfers with other federal agencies.

1AA. 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.

1AB. Fiduciary Activities
DISA WCF does not have Fiduciary Activities.

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

Note 2. Nonentity Assets

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

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

Figure 23-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	0	1
C. Other Assets	-	-
D. Total Non-Federal Assets	$ 0	$ 1
3. Total Non-Entity Assets	$ 0	$ 1
4. Total Entity Assets	$ 2,054,724	$ 2,230,763
5. Total Assets	$ 2,054,724	$ 2,230,764

Note 3. Fund Balance with Treasury

COVID-19 Impacts:
Please see Note 29

Status of Fund Balance with Treasury

DISA WCF's fund balance with treasury consists of revolving funds provided from the initial cash corpus, supplemental appropriations, and revolving funds from operations.

The Status of 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.
The Unobligated Balance Available amount of $354.7 million represents the cumulative amount of budgetary authority set aside to cover future obligations and is not restricted for future use. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations.

Obligated Balance not yet disbursed in the amount of $3.1 billion 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. DISA WCF does not have any balances to report as Non-budgetary FBWT.

The Non-FBWT Budgetary Accounts in the amount of $3.3 billion reduces budgetary resources and is primarily comprised of unfilled customer orders without advance from customers in the amount of $2.1 billion.

The FBWT reported in the financial statements has been adjusted to reflect DISA WCF balance as reported by Treasury and identified to DISA WCF on the Cash Management Report (CMR). The difference between FBWT in DISA WCF general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in DISA WCF 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 DISA WCF general ledger accounts.

Figure 24-Status of Fund Balance with Treasury

		2020		2019
1. Unobligated Balance:				
A. Available	$	354,717	$	435,768
B. Unavailable		-		387,905
Total Unobligated Balance	$	354,717	$	823,673
2. Obligated Balance not yet Disbursed	$	3,144,977	$	4,140,962
3. Non-Budgetary FBWT:				
A. Clearing accounts	$	-	$	-
B. Deposit funds		-		-
C. Non-entity and other		-		-
Total Non-Budgetary FBWT	$	-	$	-
Total Status of Fund Balance with Treasury	$	3,499,695	$	4,964,635
4. Non-FBWT Budgetary Accounts:				
A. Investments - Treasury Securities	$	-	$	-
B. Unfilled Customer Orders without Advance		(2,098,480)		(3,328,946)
C. Contract Authority		(219,286)		(96,709)
D. Borrowing Authority		-		-
E. Receivables and Other		(984,407)		(986,435)
Total Non-FBWT Budgetary Accounts	$	(3,302,173)	$	(4,412,090)
5. Total FBWT	$	197,521	$	552,545

Note 6. Accounts Receivable, Net
COVID-19 Impacts:
Please see Note 29

Accounts receivable represent DISA WCF'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 uncollectable accounts receivable amount is determined by using a systematic methodology that includes performing an analysis of the applicable receivable accounts utilizing three years of accounts receivable historical data.

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 25-Accounts Receivable, Net

(thousands)

DISA WCF 2020	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 964,161	$ -	$ 964,161
Non-Federal Receivables (From the Public)	1,596	(0)	1,596
Total Accounts Receivable	$ 965,757	$ (0)	$ 965,757

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

Note 9. General Property, Plant and Equipment, Net
COVID-19 Impacts:
Please see Note 29

DISA WCF General PP&E is comprised of telecommunications services and computing services related equipment, software, leasehold improvements, construction-in-progress, and assets under capital lease with a net book value (NBV) of $890.6 million.

As disclosed in Note 1.D., DISA WCF uses historical cost for determining General PP&E beginning balances, not Deemed Cost as provided by SFFAS 50 – *Establishing Opening Balances for General Property, Plant, and Equipment.*

There are no restrictions on the use or convertibility of DISA WCF's property and equipment and all values are based on acquisition cost.
DISA WCF does not possess any Stewardship PP&E (Federal Mission PP&E, Heritage Assets, or Stewardship Land).

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

Figure 26-General Property, Plant, and Equipment, Net

(thousands)

DISA WCF	CS	TSEAS	Component	Consolidated
General PP&E, Net beginning of year	$ 199,401	$ 605,426	$ -	$ 804,827
Capitalized Acquisitions	51,578	64,154	(23,190)	92,542
Dispositions/Revaluations	-	716	226,478	227,193
Transfers in/(out) without reimbursement	-	-	-	-
Depreciation Expense	(30,352)	(203,608)	-	(233,960)
Balance at end of year	$ 220,627	$ 466,689	$ 203,287	$ 890,602

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 27- General Property, Plant, and Equipment, Net

(thousands)

(thousands)

DISA WCF 2020 Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
A. Land	N/A	N/A	$ -	N/A	$ -
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45*	-	-	-
C. Leasehold Improvements	S/L	Lease term	13,771	(10,494)	3,277
D. Software	S/L	2-5 or 10	192,717	(95,554)	97,163
E. General Equipment	S/L	Various	2,123,277	(1,443,321)	679,956
F. Assets Under Capital Lease	S/L	Lease term	363,716	(291,580)	72,136
G. Construction-in-Progress	N/A	N/A	38,071	N/A	38,071
H. Other	N/A	N/A	-	-	-
I Total General PP&E			$ 2,731,552	$ (1,840,949)	$ 890,603

DISA WCF 2019 Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
A. Land	N/A	N/A	$ -	N/A	$ -
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45*	1,189	(154)	1,035
C. Leasehold Improvements	S/L	Lease term	13,272	(9,567)	3,705
D. Software	S/L	2-5 or 10	130,187	(74,377)	55,810
E. General Equipment	S/L	Various	1,866,857	(1,284,275)	582,582
F. Assets Under Capital Lease	S/L	Lease term	363,716	(281,320)	82,396
G. Construction-in-Progress	N/A	N/A	79,299	N/A	79,299
H. Other	N/A	N/A	-	-	-
Total General PP&E			$ 2,454,520	$ (1,649,693)	$ 804,827

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

Note 10. Other Assets
COVID-19 Impacts:

Please see Note 29
DISA WCF Other Assets is comprised of funding provided to the Defense Counterintelligence and Security Agency (DCSA) in advance for personnel security investigations. FY 2020 was the first year for funding these services in advance of investigations being performed.

Figure 28-Other Assets

(thousands)

	2020	2019
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 841	$ -
B. Other Assets	-	-
C. Total Intragovernmental Other Assets	$ 841	$ -
2. Non-Federal Other Assets		
A. Outstanding Contract Financing Payments	$ -	$ -
B. Advances and Prepayments	-	-
C. Other Assets (With the Public)	-	-
D. Total Non-Federal Other Assets	$ -	$ -
3. Total Other Assets	$ 841	$ -

Note 11. Liabilities Not Covered by Budgetary Resources
COVID-19 Impacts:
Please see Note 29

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

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

Nonfederal Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. As of September 30, 2020, DISA WCF's liabilities consist of actuarial FECA liability for workers compensation benefits in the amount of $4.4 million. These liabilities will be funded in future periods.

Figure 29-Liabilities Not Covered by Budgetary Resources

(thousands)

	2020	2019
1. Intragovernmental Liabilities		
A. Accounts Payable	$ -	$ -
B. Debt	-	-
C. Other	1,070	1,105
D. Total Intragovernmental Liabilities	$ 1,070	$ 1,105
2. Non-Federal Liabilities		
A. Accounts Payable	$ -	$ -
B. Military Retirement and Other Federal Employment Benefits	4,363	4,773
D. Environmental and Disposal Liabilities	-	-
C. Other Liabilities	-	15
D. Total Non-Federal Liabilities	$ 4,363	$ 4,788
3. Total Liabilities Not Covered by Budgetary Resources	$ 5,433	$ 5,893
4. Total Liabilities Covered by Budgetary Resources	$ 969,501	$ 977,413
5. Total Liabilities Not Requiring Budgetary Resources	$ -	$ -
6. Total Liabilities	$ 974,936	$ 983,306

Note 13. Military Retirement Benefits 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:

Figure 30-Compensation COLAs and CIP-Ms

CBY	COLA	CPI-M
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 percent in Year 1 and years thereafter;
For medical benefits:
2.303 percent 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 WCF is the FECA expense. The DOL provides the expense data to DISA. The staffing ratio data from DISA headquarters determines the allocation of the expense to DISA WCF and DISA GF.

The DOL provided an estimate for DISA's future workers' compensation benefits of $9.1 million. DISA distributed $4.4 million to DISA WCF and $4.7 million to DISA GF based upon staffing ratios. DISA made the distribution using DISA's normal methodology of apportioning FECA liability to WCF and GF based upon relative staffing levels. 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 decreased $410.3 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 31-Military and Retirement and Other Federal Employment Benefits

(thousands)

2020	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ -	$ -	$ -
B. Military Pre Medicare-Eligible Retiree Health Benefits	-	-	-
C. Military Medicare-Eligible Retiree Health Benefits	-	-	-
D. Total Pension and Health Benefits	$ -	$ -	$ -
2. Other Benefits			
A. FECA	$ 4,363	$ -	$ 4,363
B. Voluntary Separation Incentive Programs	-	-	-
C. DoD Education Benefits Fund	-	-	-
D. Other	-	-	-
E. Total Other Benefits	$ 4,363	$ -	$ 4,363
3. Total Military Retirement and Other Federal Employment Benefits	$ 4,363	$ -	$ 4,363

2019	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ -	$ -	$ -
B. Military Pre Medicare-Eligible Retiree Health Benefits	-	-	-
C. Military Medicare-Eligible Retiree Health Benefits	-	-	-
D. Total Pension and Health Benefits	$ -	$ -	$ -
2. Other Benefits			
A. FECA	$ 4,773	$ -	$ 4,773
B. Voluntary Separation Incentive Programs	-	-	-
C. DoD Education Benefits Fund	-	-	-
D. Other	-	-	-
E. Total Other Benefits	$ 4,773	$ -	$ 4,773
3. Total Military Retirement and Other Federal Employment Benefits	$ 4,773	$ -	$ 4,773

Note 15. Other Liabilities
COVID-19 Impacts:
Please see Note 29

Intragovernmental

Federal Employee's Compensation Act (FECA) Reimbursements to the DOL - $1.1 million: Represents liabilities for billed amounts payable in FY 2020 and FY 2020 unbilled amounts, including both incurred and an estimated accrual. The FECA Program provides benefits to employees injured on the job and their beneficiaries. The program is administered by the DOL which pays claim amounts then seeks reimbursement from DISA WCF. The amount owed by DISA WCF for FECA liabilities has two components. The first component represents the billed amount payable to DOL for amounts actually paid on behalf of DISA WCF. The second component represents both incurred and an actuarial liability which is an estimate of future payments to be made by DOL. The actuarial liability is based on historical patterns, assessed level of risk and medical and wage inflation factors. Refer to Note 13, Military Retirement and Other Federal Employee Benefits for the estimated FECA actuarial liability. Both liabilities are unfunded until budgetary resources become available for reimbursement.

Employer Contribution and Payroll Taxes - $3.7 million: This represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Non-Federal

Accrued Funded Payroll and Benefits – $50.8 million: DISA WCF reports as other liabilities, the unpaid portion of accrued funded civilian payroll and employee's annual leave as it is earned, and subsequently reduces the leave liability when it is used. Unused leave is an unfunded liability which will be paid from future resources when taken or when the employee retires or separates. The liability reported at the end of the accounting period reflects the current pay rates. When sick leave is earned, a liability is not recognized for unused amounts because employees do not vest in this benefit; sick and holiday leave is expensed when taken.

Advances from Others - $939,000: This liability primarily consists of decentralized contract orders whereby DISA customers place orders directly with the vendors for which the DITCO fee is collected prior to being billed.

Employer Contribution and Payroll Taxes - $714,000: For FY 2020, this represents employees Thrift Savings Plan (TSP) payable amounts that were previously recorded as intragovernmental instead of non-federal.

DISA life and other insurance programs covering civilian employees are provided through the OPM. DISA 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 32-Other Liabilities

(thousands)

2020	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
E. FECA Reimbursement to the Department of Labor	$ 550	$ 521	$ 1,071
F. Custodial Liabilities	0	-	0
G. Employer Contribution and Payroll Taxes Payable	3,665	-	3,665
I. Total Intragovernmental Other Liabilities	$ 4,215	$ 521	$ 4,736
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 50,834	$ -	$ 50,834
B. Advances from Others	939	-	939
J. Employer Contribution and Payroll Taxes Payable	714	-	714
K. Contingent Liabilities	-	-	-
M. Total Non-Federal Other Liabilities	$ 52,487	$ -	$ 52,487
3. Total Other Liabilities	$ 56,702	$ 521	$ 57,223

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

Note 16. Leases
Figure 33-Entity as Lessee, Assets Under Capital Lease (Table 16A)
(thousands)

	2020	2019
Land and Buildings....................	$ -	$ -
Equipment..................................	363,716	363,716
Accumulated Amortization.......	(291,580)	(281,320)
Total Capital Lease....................	$ 72,136	$ 82,396

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

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

DISA WCF does not currently have any future payments due for assets under capital lease.

DISA WCF has operating leases for land, buildings and equipment. Future lease payments due as of September 30, 2020, for non-cancelable operating leases were as follows:

Figure 34-Future Payments Due for Non-Cancelable Operating Leases (Table 16D)
(thousands)

2020	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2021	$ 3,954	$ 531	$ -	$ 4,485
2022	3,280	-	-	3,280
2023	1,271	-	-	1,271
2024	1,313	-	-	1,313
2025	1,356	-	-	1,356
After 5 Years	3,317	-	-	3,317
Total Federal Future Lease Payments	$ 14,491	$ 531	$ -	$ 15,022
2. Total Non-Federal Future Lease Payments	$ -	$ -	$ -	$ -
3. Total Future Lease Payments	$ 14,491	$ 531	$ -	$ 15,022

2019	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2020	$ 3,744	$ 247	$ -	$ 3,991
2021	3,621	247	-	3,868
2022	3,280	-	-	3,280
2023	1,271	-	-	1,271
2024	1,313	-	-	1,313
After 5 Years	4,673	-	-	4,673
Total Federal Future Lease Payments	$ 17,904	$ 493	$ -	$ 18,397
2. Total Non-Federal Future Lease Payments	$ -	$ -	$ -	$ -
3. Total Future Lease Payments	$ 17,904	$ 493	$ -	$ 18,397

Land and Building Leases

As of September 30, 2020, DISA WCF operates in 20 locations of which 17 of these sites are located on property (primarily military bases) where no rent is charged and only utilities are required. The three remaining sites are located on both commercial and government-owned properties and covered under long-term real estate leases expiring at various dates through 2028. DISA WCF acquires space for government owned property through the GSA, which acquires and manages most commercial property leases on behalf of the federal government. These leases generally require DISA WCF to pay property tax, utilities, security, custodial services, parking, and operating expenses. Certain leases contain renewal options.

Equipment Leases

The equipment leases are operating leases for photocopiers, and vehicles. DISA WCF currently leases 135 photocopiers and 23 vehicles located at various sites. The photocopiers are leased for three years, while the vehicles are leased for one year with annual renewal options.

Note 17. Commitments and Contingencies
COVID-19 Impacts:
Please see Note 29

DISA WCF is a party in variance administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. DISA WCF reviews the Agency Claims report and determines if a liability should be recorded for the reporting period. DISA WCF did not record any contingent liabilities for Q4, FY2020 reporting.

Note 19. 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 WCF supported by 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 (TSEAS and CS) administered by a responsible reporting entity. CS and TSEAS program elements of DISA WCF.

Intragovernmental costs and revenue are related to transactions between two reporting entities within the federal government. Public costs and revenue are exchange transactions made between DISA WCF and a nonfederal entity.

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

The following schedules supports the summary information presented in the SNC and discloses separately intragovernmental activity (transactions with other federal agencies) from transactions with the public. Costs incurred through the procurement of goods and services from both public and other federal agency providers along with revenues earned from public and other federal customers is shown for each line of business. As disclosed in Note 1.D the costs incurred and revenue earned for DISA WCF programs that received and provided services to one another have been adjusted so it is not reflected in these totals. DISA WCF's services are priced to recover the full cost of resources consumed to produce the service.

General Disclosures Related to the Statement of Net Cost
(000)

Figure 35-General Disclosures Related to the Statement of Net Cost
(thousands)

	2020	2019
Operations, Readiness & Support		
1. Gross Cost	8,070,483	7,393,536
2. Less: Earned Revenue	(7,627,691)	(7,336,803)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	-	-
Net Program Costs	$ 442,791	$ 56,733
	2020	**2019**
Consolidated		
1. Gross Cost	8,070,483	7,393,536
2. Less: Earned Revenue	(7,627,691)	(7,336,803)
Total Net Cost	**$ 442,791**	**$ 56,733**

The DoD implemented SFFAS 55 in FY 2018 which rescinds SFFAS 30 "Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4."

Figure 36-Consolidating Statement of Net cost by Responsibility Segment Cost and Earned Revenues with the Public and Intragovernmental

(thousands)

2020	With the Public	Intra-governmental	Intra-WCF Eliminations	Consolidated
Computing Svcs				
Gross Costs	$ 236,320	$ 873,075	$ -	$ 1,109,396
Less earned revenues	(7)	(987,137)	-	(987,144)
Net Costs	$ 236,314	$ (114,062)	$ -	$ 122,252
TSEAS				
Gross Costs	$ 7,603,827	$ 236,329	$ -	$ 7,840,156
Less earned revenues	(8,450)	(7,509,084)	-	(7,517,534)
Net Costs	$ 7,595,377	$ (7,272,755)	$ -	$ 322,622
Component Level *				
Gross Costs	$ (283,750)	$ (595,318)	$ -	$ (879,069)
Less earned revenues	(2,082)	879,069	-	876,986
Net Costs	$ (285,833)	$ 283,750	$ -	$ (2,082)
Net Cost of Operations				
Gross Costs	$ 7,556,397	$ 514,086	$ -	$ 8,070,483
Less Total Revenues	(10,539)	(7,617,152)	-	(7,627,692)
Total Net Costs	$ 7,545,858	$ (7,103,066)	$ -	$ 442,791

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

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

Note 20. Disclosures Related to the Statement of Changes in Net Position
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 WCF primarily consists of budgetary financing sources – other for transfers-in/out and along with the net cost of operations.

DISA WCF does not have Funds from Dedicated Collections and did not receive any supplemental appropriations during FY 2020.

Note 21. Disclosures Related to the Statement of Budgetary Resources
COVID-19 Impacts:
Please see Note 29

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

As of September 30, 2020, DISA WCF incurred $7.8 billion of obligations, all of which are reimbursable and none of which are exempt from apportionment.

The total unobligated balance available (Apportioned) as of September 30, 2020 is $354.7 million, and represents the cumulative amount of budgetary authority that has been set aside to cover future obligations for the current period.

As disclosed in Note 1.D, DISA WCF's SBR does not include intra-entity transactions as they have been adjusted to meet DISA's WCF One-Fund budgetary reporting requirements.

DISA WCF does not have any available borrowing/contract authority balance at the end of the fiscal year.

As of September 30, 2020, DISA WCF's Net Amount of Budgetary Resources Obligated for Undelivered Orders is $2.2 billion.

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

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

Figure 37-Budgetary Resources Obligated for Undelivered Orders at the End of the Period

(thousands)

	2020	2019
1. Intragovernmental		
A. Unpaid	$ 336,674	$ 476,212
B. Prepaid/Advanced	841	-
C. Total Intragovernmental	$ 337,515	$ 476,212
2. Non-Federal		
A. Unpaid	1,815,837	2,568,428
B. Prepaid/Advanced	-	-
C. Total Non-Federal	$ 1,815,837	$ 2,568,428
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 2,153,352	$ 3,044,640

Note 24- Reconciliation of Net Cost to Net Outlays

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

Figure 38-Reconciliation of net Cost of Operations to Net Outlays
(thousands)

2020	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ (7,085,289)	$ 7,528,081	$ 442,791
Components of Net Cost That Are Not Part of Net Outlays:			
2. Property, Plant, and Equipment Depreciation	$ -	$ (233,960)	$ (233,960)
3. Property, Plant, and Equipment Disposal & Revaluation	-	(8,096)	(8,096)
6. Other	(247,292)	263,225	15,933
7. Increase/(Decrease) in Assets:	-	-	
7a. Accounts Receivable	(22,309)	(4,984)	(27,293)
7d. Other assets	841	-	841
8. (Increase)/decrease in liabilities:			
8a. Accounts Payable	138,636	2,123	140,759
8b. Salaries and Benefits	(1,283)	(11,906)	(13,189)
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	35	425	460
9. Other Financing Sources:			
9a. Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(55,766)	-	(55,766)
10. Total Components of Net Cost That Are Not Part of Net Outlays	$ (187,138)	$ 6,827	$ (180,311)
Components of Net Outlays That Are Not Part of Net Cost:			
12. Acquisition of Capital Assets	10,953	81,590	92,543
15. Other	1	-	1
16. Total Components of Net Outlays That Are Not Part of Net Cost	10,954	81,590	92,544
18. Net Outlays	$ (7,261,473)	$ 7,616,498	$ 355,023
19. Agency Outlays, Net, Statement of Budgetary Resources			$ 355,023
20. Reconciling Difference			$ (0)

Note 29-COVID-19 Activity

DISA WCF did not use a significant amount of their FY2020 budgetary resources to prevent, prepare for, or respond to COVID-19.

These Notes Do Not Apply to DISA WCF:

Note 4- Cash and Other Monetary Assets

Note 5- Investments and Related Interest

Note 7- Direct Loan and/or Loan Guarantee Programs

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) on its financial statements. DISA has not identified WCF DM&R in FY 2020 to report. This determination is made based existing contracts in place for current funded maintenance. Regularly scheduled maintenance takes place resulting in no need for deferred maintenance. DISA guidance and procedures are in place that addresses preventative maintenance as well as scheduled and unscheduled incidents requiring maintenance. Review is made for facilities, hardware, and software for current funding to deter operational and security issues. There is no request for WCF funding for deferred maintenance; hardware programs are at risk if current maintenance is not in place and if there would be lack of maintenance for software, it poses a security threat in DISA environment. Based upon these overarching considerations, preventative maintenance takes place with current contracts to ensure operational and security capabilities. Since it is anticipated, due to the nature of the mission, required maintenance is not deferred; therefore, not ranked or prioritized among other activities. In addition, as of FY 2020, all real property has been transferred out of DISA WCF.

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

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

No significant changes in policy, identification, or treatment of DM&R have occurred since the last fiscal year.

2. Schedule of Consolidation

The Schedule of Consolidation displays the Balance Sheet and Statement of Net Cost in a manner to clearly identify the TSEAS, CS, and component level line balances for arriving at the combined totals, along with the intra-WCF entity elimination values for arriving at the consolidated totals. The SBR is presented as combined instead of consolidated.

Defense Information Systems Agency
Working Capital Fund
As of September 30, 2020

Figure 39-Consolidating Balance Sheet

(thousands)

	CS	TSEAS	Combined	Intra-Entity Eliminations	FY 2020 Consolidated
ASSETS					
Intragovernmental:					
Fund Balance with Treasury	$ 130,876	$ 66,646	$ 197,522	$ -	$ 197,522
Accounts Receivable	74,350	988,394	1,062,744	(98,584)	964,161
Other Assets	-	841	841	-	841
Total Intragovernmental Assets	$ 205,226	$ 1,055,881	$ 1,261,107	$ (98,584)	$ 1,162,524
Accounts Receivable, Net	84	1,512	1,596	-	1,596
General PP&E, Net	219,521	671,083	890,603	-	890,604
Other Assets	-	-	-	-	-
TOTAL ASSETS	**$ 424,831**	**$ 1,728,476**	**$ 2,153,306**	**$ (98,584)**	**$ 2,054,724**
LIABILITIES					
Intragovernmental:					
Accounts Payable	$ 107,129	$ 12,396	$ 119,525	$ (93,259)	$ 26,266
Other Liabilities	2,791	1,945	4,736	-	4,736
Total Intragovernmental Liabilities	$ 109,920	$ 14,341	$ 124,261	$ (93,259)	$ 31,002
Non-Federal:					
Accounts Payable	$ (805)	$ 893,212	$ 892,408	$ (5,325)	$ 887,085
Military Retirement and Other Federal Employment Benefits	2,385	1,978	4,363	-	4,363
Other Liabilities	26,568	25,918	52,486	-	52,486
TOTAL LIABILITIES	**$ 138,068**	**$ 935,450**	**$ 1,073,518**	**$ (98,584)**	**$ 974,936**
NET POSITION					
Cumulative Results of Operations - Other Funds	286,763	793,025	1,079,788	-	1,079,788
TOTAL NET POSITION	**$ 286,763**	**$ 793,025**	**$ 1,079,788**	**$ -**	**$ 1,079,788**
TOTAL LIABILITIES AND NET POSITION	**$ 424,831**	**$ 1,728,475**	**$ 2,153,306**	**$ (98,584)**	**$ 2,054,724**

Defense Information Systems Agency
Working Capital Fund
As of September 30, 2020

Figure 40-Combing Statement of Budgetary Resources
(thousands)

2020	CS	TSEAS	DISA WCF Component	Combined
Budgetary Resources (discretionary and mandatory):				
Unobligated balance from prior year budget authority, net	$ 134,959	$ 689,217	$ (412)	$ 823,763
Appropriations	47,772	185,178	-	232,951
Spending Authority from offsetting collections	954,395	7,233,143	(1,993,021)	6,194,516
Total Budgetary Resources	$ 1,137,126	$ 8,107,538	$ (1,993,433)	$ 7,251,230
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$ 1,061,129	$ 7,834,248	$ (1,998,864)	$ 6,896,513
Unobligated balance, end of year:				
Apportioned, unexpired accounts	75,997	273,290	5,431	354,717
Unexpired unobligated balance, end of year	75,997	273,290	5,431	354,717
Unobligated balance, end of year (total)	$ 75,997	$ 273,290	$ 5,431	$ 354,717
Total Budgetary Resources	$ 1,137,126	$ 8,107,538	$ (1,993,432)	$ 7,251,230
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)	$ 136,819	$ 218,204	$ (17,279)	$ 337,744
Agency Outlays, net (discretionary and mandatory	$ 136,819	$ 218,204	$ (17,279)	$ 337,744

Defense Information Systems Agency
Working Capital Fund
As of September 30, 2020

Figure 41-Consolidating Statement of Net Cost

(thousands)

PROGRAM COSTS	CS	TSEAS	Combined	Intra-Entity Eliminations	FY 2020 Consolidated
Gross Costs	$ 1,109,396	$7,840,156	$ 8,949,551	$ (879,069)	$ 8,070,483
Less: Earned Revenue	(987,144)	(7,517,533)	(8,504,677)	876,986	(7,627,692)
Net Cost of Operations	**$ 122,252**	**$ 322,622**	**$ 444,875**	**$ (2,083)**	**$ 442,791**

Other Information

1. Top Side Adjustment

Top Side Adjustments were done in Q4, 2020 which affected the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources. These adjustments are identified in footnote 1.D.

2. Management Challenges

DEFENSE INFORMATION SYSTEMS AGENCY
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:

1) 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.

2) 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.

3) 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.

4) 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.M Digitally signed by
[redacted]

Stephen M. Ryan
Inspector General

3. 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.

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

December 17, 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 Working Capital Fund Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FL-0085.000, Report No. DODIG-2021-039)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Information Systems Agency (DISA) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 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 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 an unmodified opinion on the FY 2020 DISA Working Capital Fund Financial Statements. Kearney & Company concluded that the DISA Working Capital Fund Financial Statements and related notes as of and for the fiscal year ended September 30, 2020, are presented fairly, in all material aspects, in conformity with Generally Accepted Accounting Principles. However, for the FY 2019 DISA Working Capital Fund Financial Statements, Kearney & Company could not obtain sufficient, appropriate audit evidence and did not express an opinion on the DISA Working Capital Fund 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 Working Capital Fund internal controls over financial reporting.[*] Specifically, Kearney & Company's report describes the following material weaknesses.

- 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.

- DISA did not implement sufficient processes or internal controls to support the completeness and accuracy of its Accounts Receivable, Accounts Payable, Revenue, and Expenses. For example, DISA did not validate the reasonableness of its Accounts Payable accrual estimates through the review of vendor invoices and did not have a process in place to consistently validate supporting documentation submitted by vendors. In addition, DISA did not have a process in place to properly classify collection transactions, resulting in potential unmatched collections, and DISA's intragovernmental business process required extensive manual effort to match collections to an obligation, payable, or receivable. The lack of processes and internal controls resulted in adjustments to the balance sheet and the Statement of Net Cost.

- 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 de-obligate invalid Undelivered Orders, liquidate invalid Unfilled Customer Orders, or record obligations in the financial management systems in a timely manner.

- DISA did not have adequate controls to ensure the Annual Financial Report was available for audit in a timely manner and to ensure the Annual Financial Report and footnotes were free from errors. In addition, DISA did not implement a timely review of the quarterly financial statements variance analysis, nor did it have a process to document the quarterly financial statements variance

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

analysis reviews. Lastly, DISA did not complete an assessment to define its financial reporting entity to ensure completeness of its financial statements and related disclosures.

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

Kearney & Company's 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 Management Improvement Act, the Federal Information Security Modernization Act, or the Federal Managers Financial Integrity Act.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DISA Working Capital Fund FY 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 Working Capital Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and regulations. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached December 17, 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

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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 have audited the accompanying Working Capital Fund (WCF) financial statements of the Defense Information Systems Agency (DISA), which comprise the balance sheet as of September 30, 2020, the related statements of net cost and changes in net position, and the combined statement of budgetary resources for the years then ended, and the related notes to the financial statements. We have also audited the accompanying WCF financial statements of DISA, which comprise the balance sheet as of September 30, 2019, the related statements of net cost and changes in net position, and the combined statement of budgetary resources 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 our audits. We conducted our audits on the financial statements as of September 30, 2020 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 (0MB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements.* Those standards and 0MB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the balance sheet as of September 30, 2020, the related statements of net cost and changes in net position, and the combined statement of budgetary resources for the years then ended. 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 on the balance sheet as of September 30, 2019, the related statements of net cost and changes in net position, and the combined statement of budgetary resources for the years then ended.

Basis for Disclaimer

During our audit of DISA's balance sheet as of September 30, 2019, the related statements of net cost and changes in net position, and the combined statement of budgetary resources for the years then ended, we identified a material amount of unreconciled transactions and unexplained variances that potentially impacted the completeness and accuracy of DISA's financial statements. DISA utilizes a service organization, which supports multiple other Federal entities, to process disbursement and collection transactions. We identified a material amount of disbursements and collections which were processed; however, DISA's service organization was unable to assign the transactions to a specific entity because of various transactional errors or insufficient business practices. We also identified unreconciled differences between the service organization's records and amounts reported by the U.S. Department of the Treasury (Treasury). DISA and its service organization were unable to provide evidential matter to validate that these unresolved and unreconciled items did not impact DISA's financial statements.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the DISA WCF as of September 30, 2020 and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 0MB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information, as named in the Agency Financial Report (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; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and 0MB Bulletin No. 19-03, we have also issued reports, dated December 17, 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 considering in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
December 17, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited, 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*, the Working Capital Fund (WCF) 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 WCF's financial statements, and we have issued our report thereon dated December 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DISA WCF'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 WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of DISA WCF'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.

KEARNEY&
COMPANY

We noted certain additional matters involving internal control over financial reporting that we will report to DISA WCF'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 response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no 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 audit performed 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
December 17, 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 B. Statements of Differences Reconciliation and Reporting Procedures C. Cash Management Report
II. Accounts Receivable (AR)/Revenue and Accounts Payable (AP)/Expense	A. Allowance for Doubtful Accounts B. Transactions Inaccurately Recorded C. Unmatched Transactions D. Accounts Payable Estimate E. Receipt and Acceptance
III. Budgetary Resources	A. Invalid Undelivered Orders B. Invalid Unfilled Customer Orders C. Untimely Undelivered Order Transactions
IV. Financial Reporting	A. End-of-Year Financial Reporting B. Lack of Review of Financial Statements C. Lack of Assessments Related to Reporting Entity Definition and Public-Private Partnership Disclosures
V. Information Technology (IT)	Information System Security Controls

I. FBWT (*Repeat Condition*)

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

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

A. Suspense Accounts

1. 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 appropriate 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 fiscal year (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.

2. Suspense Discontinued Research Packages

Background: 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: DISA failed to provide evidence that eight of 11 suspense DRPs totaling $21.26 million (net) and $991.65 million (absolute) were 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.

B. SoD 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 completes 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 appropriate 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. CMR

1. Creation of the CMR

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 WCF 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 adequately 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 symbol used by DISA (4930.005) 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.
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.

2. CMR 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 attributed 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 appropriate 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.

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 symbol used by DISA (4930.005) 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.

II. AR/Revenue and AP/Expense *(Repeat Condition)*

Deficiencies in five related areas define this material weakness:

A. Allowance for Doubtful Accounts
B. Transactions Inaccurately Recorded
C. Unmatched Transactions
D. Accounts Payable Estimate
E. Receipt and Acceptance.

A. Allowance for Doubtful Accounts

1. Lack of Implementation of TB 2020-1

Background: 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. Additionally, the following types of guidance may be provided within a TB:

- Guidance to clarify, explain, or elaborate on an underlying Statement or Interpretation
- Guidance to address areas not directly covered by existing Statements or Interpretations
- Interim guidance on problems in applying an existing Statement or Interpretation currently under study by FASAB
- If applicable, guidance for applying Financial Accounting Standards Board (FASB) or Government Accounting Standards Board (GASB) standards to Federal activities.

FASAB issued the TB 2020-1, *Loss Allowance for Intragovernmental Receivables*, on February 20, 2020 and required implementation in FY 2020. TB 2020-1 documented that an allowance for estimated uncollectible amounts should be recognized in order to reduce the gross amount of receivables to its net realizable value. The allowance for uncollectible amounts should be re-estimated on each applicable annual financial reporting date, as well as when it would be applicable that the most recent estimate would no longer be accurate.

Condition: DISA has not 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. Additionally, DISA did not perform an analysis over the outstanding Aged Accounts Receivable (AR) balances in order to determine whether DISA would collect the receivables from their Federal agency customers.

Cause: DISA does not have a routine process in place to monitor updated accounting guidance and standards and to ensure it has updated its policies and controls in order to comply with these updates. During audit walkthroughs, DISA personnel were not aware of the new TB 2020-1 put into place by FASAB and its required implementation within the aged AR and Allowance for Doubtful Accounts process.

Effect: Without procedures and analysis to implement TB 2020-1, DISA's AR balances, specifically that of the Intragovernmental Receivables, included on its balance sheet are at increased risk for potential misstatements.

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.

2. Lack of Documented Processes, Controls, and Review of the Allowance for Doubtful Accounts Estimate by DISA Management

Background: DISA relies on its service organization to create the applicable journal entry (JE) and obtain the necessary support for the Allowance for Doubtful Accounts estimate. The estimates are created from the receivables that arise from claims to cash or other assets against another entity. At the time revenue is recognized and payment has not been received in advance, a receivable must be established. Receivables include, but are not limited to, monies due for the sale of goods and services and monies due for indebtedness. Intragovernmental transactions result from business activities conducted between two Federal entities, called trading partners. The accurate reporting of reciprocal balances, as well as proper elimination of reciprocal activity between trading partners, requires accurate documentation of accounting events. Imbalances occur when Federal entities or trading partners are unable to account for and reconcile differences when buying and selling goods and services.

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.

Condition: DISA does not document 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 DISA's service organization to create the estimate amount.

Cause: 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. Additionally, DISA has not established monitoring procedures to perform review over the accuracy of the calculation and support created by DISA's service organization on behalf of DISA of the Allowance for Doubtful Accounts estimate and necessary adjustments to the AR balances.

Effect: Without appropriate documented review and approval of significant accounting balances and estimates, such as the Allowance for Doubtful Accounts, DISA's Working Capital Fund (WCF) may not account for variances in a timely manner, resulting in potential misstatements in the DISA WCF financial statements.

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

1. Establish and document internal controls to ensure the accuracy of the Allowance for Doubtful Accounts estimate, as well as update Standard Operating Procedures (SOP) to accurately reflect the input and management review.
2. Communicate and monitor the calculations and data created by DISA's organization and provide necessary feedback and timely approval to confirm the necessary estimate over the outstanding AR balances.

B. Transactions Inaccurately Recorded

1. TSEAS Accrual Expense Recognition

Background: DISA is accountable for its stewardship in expending resources necessary in carrying out its missions. Some examples of the type of operating expenses incurred in this capacity include those related to personnel costs, contractual services, and the purchase of operating materials and supplies. Operating expenses should be recorded when goods or services are received.

DISA identifies specific contracts within its population, for which it posts a monthly estimated accrual. These accruals are posted as an estimate for services received during the month, but not yet billed. Accruals are automatically posted on a monthly basis, which is based on a pro-rated percentage amount of the contract. The automated accrual amount is updated and recalculated each month as actual invoices are received throughout the funding vehicle's period of performance (PoP). The expense and corresponding payable transactions recorded in the expense subledger are estimates based on contractual terms at the time they are recorded, or adjustments to the original estimate when actual invoices are received.

Condition: DISA's accrual methodology posts individual estimated expense transactions at the end of each month based on remaining open obligation, invoices received, and an estimated contractual burn rate. If an invoice is received for less than the estimated expense, the invoice is not recorded as an expense transaction in the expense subledger. If an invoice is received for a higher amount than the estimated expense, DISA posts an additional partial expense transaction and payable amount to reconcile and agree to the invoice. Due to this methodology and posting logic, expense transactions within the expense subledger are not supported by actual invoices at the transaction level.

As noted in the effect below, DISA provided a population of transactions supported by invoices, which allowed Kearney to perform testing procedures.

Cause: DISA's accrual methodology for service contracts establishes expense based on an estimated straight-line accrual driven by the contract value. When an invoice is received, DISA does not reverse the initial estimate and post the actual invoice received. Due to this process, DISA liquidates the estimated AP and transfers the payable to a separate AP account. The estimated and invoice-based AP are differentiated by a GL sub-account. Due to this posting logic, invoices are not linked specifically to transactions in the expense population.

Effect: DISA does not directly record invoices in its expense account within the GL; therefore, there may be an increased risk that DISA's transaction-level detail may not be supported by key documentation that would agree to the overall GL. Significant analysis and reconciliation was needed for DISA to create a population of invoices that agreed to the subledger. This delayed testing on DISA's FY 2020 financial statement audit for several months. DISA was able to provide a population and successfully complete expense testing for the period ended March 31,2020.

Recommendations: Kearney recommends that DISA management perform the following:

1. Record an aggregate estimated AP transaction representing an estimate of goods and services received, but not invoiced, at the end of each quarter, rather than individual accruals based on pro-rated contractual terms.
2. Develop and implement an accrual reversal process to remove the estimated expense at the beginning of the subsequent period.

2. TSEAS Telecom Expense Testing Results

Background: DISA WCF is composed of two divisions: Telecommunications Services and Enterprise Acquisition Services (TSEAS) and Computing Services (CS). Within TSEAS, DISA's operations consist of two lines of business: telecommunications (telecom) and non-telecommunications (non-telecom). DISA uses the Financial Accounting and Budget System (FABS) mainframe system to manage and track financial aspects associated with telecom circuits, equipment, and leased services. FABS also supports customer billing, including monthly recurring charges (MRC), non-recurring charges (NRC), subscriber rate charges, usage charges, taxes, surcharges, and Universal Service Fees (USF).

DISA's accrual process for Telecom MRCs is to generate automated accruals for approximately 100% of the cost recorded in the contract with the vendor. DISA also incurs charges that are specifically dependent on customer usage, which are known as NRCs, rather than MRCs. Vendors do not always invoice in the period charges were incurred for NRCs. DISA management creates an estimate based on historical data, such as number of circuits outstanding, average daily rates of usage charges, and number of days between charges and vendor invoice receipt to record expense in the correct period.

Condition: A sample of 397 TSEAS telecom expense transactions was reviewed. The following exceptions were identified within the population:

- Thirty-one transactions totaling $14.7 million were expenses incurred in a prior period, recorded in FY 2020. This activity incorrectly overstated current-year (CY) expense
- Nineteen transactions totaling ($622) thousand were corrections to an expense recognized in a prior period. This activity incorrectly reduced CY expense
- Five transactions totaling ($267) thousand were corrections to prior-period duplicate payments. This activity incorrectly reduced CY expense
- Twenty-five transactions totaling ($5.0) million were errors related foreign currency corrections from a prior period.

For the period ended September 30, 2019, DISA posted an estimated accrual for telecom expense totaling $5.2 million. This adjustment was meant to capture and estimate NRCs and usage expenses incurred not yet invoiced. This accrual did not accurately capture and consider all activity.

Cause: DISA relies on an automated accrual posting for MRCs to recognize telecom expense charges before actual costs are known. When corrections are needed for activity such as foreign currency corrections that cross FYs, DISA does not have documented processes or controls in place to evaluate and quantify the impacts to CY expense and AP accounts. Additionally, DISA did not evaluate the impact of all NRCs that were posted in a subsequent period. DISA's accrual to account for charges incurred but not yet invoiced as of September 30, 2019 did not include or consider all of the applicable activity.

Effect: Without proper controls and processes to ensure expenses are recognized in the proper period, DISA has an increased risk of material misstatements to its financial statements. Through testing Quarter (Q) 1 and Q2 activity, this resulted in a known error of $8.9 million for 80 transactions. Based on this analysis, DISA has proposed an adjustment of approximately $22.3 million to address the telecom errors.

Recommendations: Kearney recommends that DISA perform the following:

1. Design and implement a control to review the impact of prior-year activity in the CY Expense and AP populations. If necessary, and based on the completed results, DISA should also document and record an adjustment.
2. Update the usage accrual to consider all types of activity recorded in the incorrect period and use the applicable billing period data field to determine a historical impact.
3. Document and update the necessary SOPs to reflect the changes and adjustments implemented for the overall process.

C. Unmatched Transactions

1. Lack of Review and Monitoring of DISA's Collections Process

Background: Receivables arise from claims to cash or other assets against another entity. DISA's business process consists of its service organization processing collections received from DoD and Non-DoD entities on behalf of DISA. DISA receives collections through the following classification categories: FedWire, Automated Clearing House (ACH)/Credit Card (Pay.Gov), physical checks, and SF-1080 prints. The collections processed for the SF-1080 transactions primarily occurs at DISA's service organization, and each transaction received flows through DISA's service organization prior to any involvement of DISA personnel. There are immaterial collection amounts flowing through FedWire, Pay.Gov, and physical checks on a yearly basis. The transactions occurring through a SF-1080 could result in amounts allocated to each classification and accounted for approximately $14.6 million as of September 30, 2020. DISA's service organization is responsible for collecting these payments from the entities and ensuring that the collections are transferred to the applicable agency, which, in this case, would be DISA.

DISA relies on its service organization to track the receipt of the appropriate collections and determine which payments pertain to DISA. The collections received via the SF-1080 process do not arrive with any specific data to identify and link it to an agency, and each transfer from DISA's service organization relies on the personnel to determine the applicable receiving agency. Additionally, the Collections Team at DISA's service organization relies on their individual knowledge and prior experience in determining the applicable entity to assign the collection amount. DISA is responsible for monitoring its service organization to ensure that the applicable collections are recorded and apply to DISA.

Condition: DISA does not have a process in place to allocate the collections received via the SF-1080 process and classify those specific transactions to the appropriate collections category, resulting in potential unmatched collections. DISA does not currently monitor or coordinate with its service organization to confirm and reconcile that the collections received via the SF-1080 process are credited to the proper DISA account or the corresponding bill.

Cause: DISA did not perform a proper review or agency-specific reconciliation over the collections transactions that were processed through the SF-1080 prints. DISA has not implemented related controls to monitor and categorize the SF-1080 collections received and processed by DISA's service organization on behalf of DISA.

Effect: Without appropriate monitoring and a formalized listing in place at DISA's service organization, there is an increased risk that DISA could receive SF-1080 transaction collections that may not be related to DISA's operations or transactions and, thus, are credited to the incorrect customer. Additionally, DISA does not track outstanding collections and relies on its service organization to determine the applicable agency and apply the necessary research for any incoming collections that may remain unmatched to a DISA billing document.

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

1. Design and implement a process to coordinate and document a formalized listing of DISA's customer agencies and review the listing of incoming SF-1080 collections received at DISA's service organization on behalf of DISA to ensure accurate recording of the receivables.
2. Increase overall communication and monitor the collections process completed at DISA's service organization on behalf of DISA to ensure there is an appropriate understanding between DISA and its service organization on the responsibilities, as well as update necessary documentation noted within the SOP.

2. WCF Unmatched Disbursements and Collections

Background: DISA WCF is composed of two divisions: TSEAS and CS. DISA participates in Reimbursable Work Order – Grantor (RWO-G) transactions with its intragovernmental trading partners. Within an RWO-G agreement, DISA grants reimbursable authority to another Federal entity that performs the work stipulated in the agreement and bills DISA in order to replenish the funding that it expended on DISA's behalf. In this process, DISA, through its service organization, reimburses its trading partners using the IPAC or the 1080 collection process. DISA is responsible for ensuring goods/services were received and billings were accurate, consistent with the RWO-G.

Condition: DISA's trading partners initiate payments and collections through DISA's service organization without prior approval or authorization from DISA. DISA's current business process and control structure is set up to allow intergovernmental payments and collections to record in the Financial Accounting Management Information System (FAMIS) as "unmatched" when a valid obligating document, as well as associated AP or AR, is not established beforehand. DISA is required to perform an extensive manual effort after the unmatched payment or collection is recorded in FAMIS in order to ensure the payment or collection made by DISA's service organization belongs to DISA and appropriately matches to an obligation, payable, or receivable in FAMIS. In some cases, the processing of unmatched transactions can result in misstatements to multiple financial accounts.

As of June 30, 2020, the following amounts remained unmatched:

- $30.4 million disbursements
- $1.7 million collections.

Cause: DISA has engaged a service organization to process collections and disbursements that pertain to expenses and revenues on the agency's behalf. Entities can request reimbursement from DISA based on the terms of the RWO-G. DISA's service organization processes transactions, regardless of whether DISA has recorded a valid obligation, AP, or AR transaction in advance of the activity. DISA does not have a process to validate unmatched activity timely.

Effect: Unmatched transactions that remain unresolved for the period ended September 30, 2020 could potentially misstate the AP, AR, (balance sheet), and Gross Costs/Revenues (Statement of Net Cost [SNC]) financial statement line items. Unmatched disbursements and collections create the risk that DISA's funds can be assigned erroneously by other Federal entities, DISA may be paying for goods and services that were never received, and DISA may potentially be paying inaccurate amounts. In some cases, after completing the manual research to clear an unmatched transaction, DISA must record adjustments to correct the misstatements initially caused by the unmatched transaction.

Recommendations: Kearney recommends that DISA perform the following:

1. Coordinate with DISA's service organization to ensure payments and collections made on behalf of DISA have a valid obligating document and associated AP or AR to liquidate against.
2. Implement controls and coordinate with DISA's service organization personnel to confirm the valuation and existence of expense and revenue transactions prior to the payment and collection delivery to DISA's customer agencies. This could include DISA's service organization providing DISA the invoice associated with payment to post in FAMIS before the payment is processed.
3. Continue to research and resolve unmatched transactions timely, including the manual correction of misstatements caused by the transactions.

D. AP Estimate

1. Lack of AP Accrual Estimate Validation

Background: A liability is a responsibility of a Federal Government agency to provide assets or services to another entity at a determinable date, when a specific event occurs, or on demand. Federal agencies should only record a liability when there is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions. The United States Standard General Ledger (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, a methodology for estimating amounts owed, but not yet invoiced, must be established. This AP estimate ensures expenses are recorded in the proper period using accrual accounting and the matching principle. Management is responsible for developing these reasonable estimates based on assumptions and relevant factors and comparing estimates with subsequent results to assess the accuracy of the estimation process.

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 WCF records estimated expenses based on the burn rate of each individual type of contract (i.e., Firm-Fixed Price [FFP], Cost-Plus Fixed Fee [CPFF]) estimation methodologies ranging between 80-97% of the total contract value over the PoP specified in the signed contract agreements. This estimate is based on historical contract execution data. DISA determined 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 was expected to be complete before the end of the FY.

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 management 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.

2. TSEAS Estimated Accrual Errors

Background: A liability is a responsibility of a Federal Government agency to provide assets or services to another entity at a determinable date, when a specific event occurs, or on demand. Federal agencies should only record a liability when there is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions. When a Federal agency is preparing financial statements, a methodology for estimating amounts owed, but not yet invoiced, must also be established. This AP estimate ensures that expenses are recorded in the proper period utilizing accrual accounting, as well as the matching principle. Management is responsible for developing these reasonable estimates based on the necessary assumptions and relevant factors, including actions to compare estimates with the subsequent results in order to assess the accuracy of the estimation process.

DISA estimates its AP by analyzing historical obligation and disbursement data to calculate an average "burn rate." This analysis resulted in DISA establishing burn rates for each major contract type. For example, the burn rate for FFP contracts was set at 95% of the total contract value. DISA utilizes contractual PoP to estimate expenses over the life of a contract. The remaining PoP, invoices received, and applicable contractual burn rate are the basis for recording expenses and the aggregate accrual estimate. When invoices are not received within a reasonable time after the end of the PoP, DISA will then reverse the outstanding accrual, known as the "accrual process return program." However, in some situations, DISA will determine to keep the accrual due to more relevant information. This can include a Contracting Officer's Representative (COR) or Project Manager (PM) documenting and communicating an expected invoice or contract closeout procedures. DISA refers to this business process exception as the "override table."

Condition: DISA used a burn rate different than the actual rate for six unique contract types. For example, DISA used a burn rate of 95% to accrue FFP contracts. However, DISA's analysis of historical contract information calculated an average burn rate of 98% on its FFP contracts. By using estimated burn rates that were less than the actual burn rates, DISA's estimated AP is understated by approximately $18.8 million as of September 30, 2020.

A sample of 30 aged, estimated accrual samples were selected for review from DISA's estimated AP accrual schedule, specifically the override table. DISA did not provide adequate supporting documentation to validate the accrual balance for 16 samples. DISA's estimated AP is overstated by approximately $11.4 million due to these errors as of September 30, 2020.

Cause: In an attempt to be conservative when estimating AP, DISA used burn rates that were less than the actual calculated rates.

DISA indicated that the aged AP balances resulted inadvertently from a recent process change. DISA transitioned from the previous process of posting accruals at the Purchase Order/line item/Accounting classification reference number (ACRN)/distribution level to the current process of posting accruals at the journal voucher (JV) level and reversing those accruals on a monthly basis in October 2020. It was noted that some transactions were inadvertently excluded from the automated accrual process return program. These transactions were marked as both "eligible for accrual" and "eligible for return."

Effect: As of September 30, 2020, AP is understated by approximately $18.8 million and overstated by a minimum of approximately $11.4 million. DISA performed additional analysis over the population of aged AP accruals. Based on this analysis, DISA has proposed an adjustment of approximately $23.9 million to address the aged AP overstatement errors.

Recommendations: Kearney recommends that DISA perform the following:

1. Perform additional research and post an accounting adjustment, if necessary, based on the errors described in the condition.
2. Implement controls to ensure an adjustment is not required in subsequent years.
3. Record estimated AP accruals at the actual burn rate calculated in the obligation and disbursement analysis.

E. R&A

1. Lack of Controls Related to WAWF R&A and Documentation Review

Background: DISA WCF procures various telecom and computing goods and services throughout the year with both DoD and Non-DoD agencies. DISA receives invoices for the procured goods/services through the Wide Area Work Flow (WAWF) system. A majority of these transactions are invoiced through the system. WAWF provides the DoD and their suppliers with a single point of entry to generate, process, and store invoices, receiving reports, non-contractual payment requests, and acceptance data sets, as well as other related data to support DoD asset visibility, tracking, and payment processes by a systematic flow for agencies. It provides the connection of information related to the acceptance of goods and services in support of the DoD supply chain. WAWF has a Service Organization Controls (SOC) 1® report that is completed each FY in order to assess the specific systematic controls, as well as those that the user entity (i.e., DISA) has the responsibility to implement the complementary user entity controls (CUEC) to support the WAWF transactions and uploaded documentation review. As described in Notice of Finding and Recommendation (NFR) #2019-IT-WCF-11, *Insufficient SOC Monitoring and Incomplete CUEC Implementation*, DISA has not implemented all of the CUECs required by its service organizations.

WAWF system end users include vendor technicians entering the invoice detail, as well as the specific CORs who attend trainings to become more familiar with the prompts of working and accepting orders within WAWF. WAWF's program office encourages the user entities to implement the entity's own policies and procedures relating to what is required to be confirmed for each WAWF transaction. The WAWF process is initiated by the vendor, who is providing goods/services to DISA, loading the invoice detail (e.g., amounts, Contract Line Item Number [CLIN], description of goods and services, date received) into WAWF. The vendor submits this summary of the invoice information and uploads an electronic copy of the invoice from the vendor's accounting system for additional support as an attachment within WAWF. The COR is responsible for verifying the vendor attachments in WAWF, as well as performing additional reviews to ensure the transaction is accurate and uploading evidence of receipt into WAWF.

Condition: DISA does not have a process in place to consistently validate the supporting documentation submitted by vendors related to the description of goods and/or services received within WAWF prior to certification and payment. Additionally, DISA has not implemented the CUECs from the WAWF SOC 1® report regarding valid documentation to document the receipt and acceptance (R&A) of goods and/or services.

Cause: DISA and its mission partners have not developed and implemented formalized processes and supporting internal controls to validate and document WAWF activity and evidence of R&A. DISA has also not developed an approach to remediate the prior-year NFR #2019-IT-WCF-11, which would provide increased controls outside of the WAWF system and collaboration between the system and the user entity (DISA).

Effect: Without appropriate review of the supporting documentation submitted and attached for R&A within WAWF, there is an increase to the risk that DISA has not received the goods or services described in the vendor invoice. CORs who are responsible for R&A will have varying decisions on what documentation would prove acceptance, thus resulting in an inconsistency across DISA. DISA is not able to support the accuracy, validity, or timeliness of its R&A in instances where the invoices are not submitted with applicable descriptions of the goods or services, whether that is on a timely basis or billed erroneously. As a result, DISA has an increased risk of accepting goods or services that may not be received or agree to the actual description. Ineffective controls or control objectives may result from DISA's failure to implement internal controls to address all required CUECs.

Recommendations: Kearney recommends that DISA management perform the following:

1. Design and implement a process and procedure to perform a three-way match between the invoice, receiving report, and contract in order to validate the documentation of the R&A of goods and/or services provided by vendors through WAWF.
2. Design and implement the CUEC described in the WAWF SOC 1® report to ensure that the COR consistently reviews and documents evidence of the R&A of the goods and service prior to approving the invoice in WAWF. This may include updating the SOP and COR training to meet those requirements.

2. Lack of IPAC R&A Process

Background: DISA WCF is composed of two divisions: TSEAS and CS. DISA participates in RWO-G transactions with its intragovernmental trading partners. Within an RWO-G agreement, DISA grants reimbursable authority to another Federal entity that performs the work stipulated in the agreement and bills DISA in order to replenish the funding that it expended on DISA's behalf. In this process, DISA, through its service organization, reimburses its trading partners using the IPAC system.

The IPAC system allows intragovernmental entities to transfer funding between themselves and to reimburse its Federal trading partners for goods and services provided. Additionally, this system is also configured to allow the service organization to process payments without prior approval from the receiver of those goods or services. These disbursements and collections are reported to Treasury on a monthly basis by DISA's service organization, and DISA allows its service organization to accept and create payments on its behalf. DISA retains responsibility for ensuring they have appropriate documentation to support the payment.

Condition: DISA does not consistently obtain, review, and document the R&A of goods and services received from intragovernmental trading partners prior to payment.

Cause: DISA has engaged a service organization to process collections and disbursements that pertain to expenses on the agency's behalf. DISA has not developed and implemented a formalized process with supporting internal controls to validate trading partner activity prior to payment via evidence of R&A or a process in place to validate post-payment activity when R&A cannot be performed.

Effect: Without appropriate R&A of trading partner activity, DISA is not able to confirm the accuracy, validity, or timeliness of their intergovernmental transactions (both expenses and liabilities). As a result, DISA may have misstatements in its expense and AP in the period it receives goods and services, resulting in a misstatement in subsequent periods. DISA may also pay trading partners for services that did not conform with the terms of its agreements.

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

1. Design and implement a process to validate R&A of goods/services provided by intragovernmental trading partners.
2. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), Memorandum of Understanding (MOU), or equivalent include language requiring cooperation of the trading partner to provide any required documentation necessary for DISA to validate the accuracy of the amounts that have been billed.
3. Implement controls and coordinate with DISA's service organization's personnel to confirm the valuation and existence of expense transactions prior to the payment delivery to DISA's customer agencies.

3. Lack of Implementation of Review and Revalidation Tool over TSEAS Pass-Through Telecom Transactions

Background: DISA WCF is composed of two divisions: TSEAS and CS. Within TSEAS, DISA's operations consist of two lines of business: telecom and non-telecom. A significant portion of TSEAS revenue is "pass-through" revenue. Pass-through revenue occurs when a customer contacts TSEAS to procure or provide a specific good or service.

After the customer contacts TSEAS requesting goods or services, DISA contracts with an outside vendor to provide the goods or services. DISA incurs expense to the outside vendor and revenue to the requesting agency (customer). Per the individual contracts between DISA and the requesting agency, the customer is responsible for notifying DISA WCF TSEAS if there is a change or update needed for the provided service. DISA has discussed that the Procurement Services Directorate (PSD) has been in the development stages of a new reporting tool that allows DISA WCF customers to monitor its services for review and revalidation.

Condition: DISA WCF acts as the intermediary agency to procure telecom services for the requesting agency by facilitating a "pass-through" contractual service. Many of these agreements include MRC, which automatically generate expense and revenue each month over the life of the contract. DISA's customer, the requesting agency, is responsible for notifying DISA WCF if there was a disruption in service or a need to update or cancel a recurring service. DISA PSD has not yet implemented a review and revalidation tool, which will provide assurance to DISA WCF that its customers' services were received and active throughout the life of the contract.

Cause: DISA noted that PSD was still in the process of implementing the tool to serve as a control relating to the communication, review, and revalidation of whether the requested services were still active or if there was a need for an updated/cancelled service. DISA did not update its internal control documentation related to this process, but it noted in FY 2020 that PSD was in the early stages of formulating and implementing the tool and related controls.

Effect: Without proper documentation, testing, and monitoring of the review and revalidation tool, pass-through activity could result in invalid or unnecessary usage of services. As there is no control in place, DISA WCF is not able to review the "pass-through" activity tool customer responses to determine if service is still active and required. DISA lacks the necessary controls to assert valid R&A over telecom pass-through transactions.

Recommendations: Kearney recommends that DISA communicate internally with PSD, as well as with the "pass-through" customer agencies, and perform the following:

1. Establish and implement policies and procedures to review the tool used to review and revalidate the telecom agreements throughout the FY.
2. Coordinate with requesting agencies to implement the use of the review and revalidation tool appropriately so DISA WCF can ensure there is a present need for the provided services.

3. Update the SOP and the necessary training for the DISA personnel to determine the actions needed for each telecom "pass-through" transaction.

III. Budgetary Resources *(Repeat Condition)*

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

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

A. Invalid Undelivered Orders

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

DISA WCF reported more than approximately $2.9 billion in UDOs on its March 31, 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.

In response to prior-year NFRs, DISA developed a quarterly control to identify UDO balances that are unlikely to be delivered. The control was designed to record an accounting adjustment for UDOs that remain open 12 months beyond the PoP and were recorded to a Purchase Order (PO) that did not have any invoice activity on any of the contract line items or delivery orders within the last calendar year. The UDO adjustment was $271.6 million as of March 31, 2020.

Condition: DISA reported 46 invalid TSEAS UDOs, totaling approximately $57.6 million, on its March 31, 2020 trial balance that were not captured in its quarterly UDO adjustment. These were determined to be invalid due to expired PoP, expired fund availability, and lack of recent activity.

Cause: DISA did not have effective control procedures to ensure that invalid UDOs are identified by funds holders and deobligated in a timely manner. Although DISA did develop a control to adjust account balances for UDOs that are unlikely to be delivered, the control focused on the overall PO activity, as opposed to specific contract line items or delivery orders on that PO.

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 Unfilled Customer Orders (UCO), future disbursements will be required to liquidate the dormant balance, and there is appropriate and readily available KSDs to justify the remaining balance. However, not all dormant balances for physically completed contracts were identified and de-obligated as of March 31, 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 closeout processing by DISA's PSD, delays in Defense Contract Audit Agency (DCAA) audits, and the need to reconcile and deobligate aged funding balances during the life of the contract. DISA officials indicated that they were reluctant to deobligate individual amounts in the detailed accounting records until these steps have been completed.

Effect: Invalid UDOs resulted in inaccurate reporting by DISA and a known overstatement of approximately $57.6 million as of March 31, 2020 on the New Obligations and Upward Adjustments line on the FY 2020 Statement of Budgetary Resources (SBR). When statistically evaluated against the UoT, the projected overstatement is approximately $185.5 million.

Recommendations: Kearney recommends that DISA perform the following:

1. Improve and develop existing policies to ensure that funds holders are adequately assessing the validity of the open UDO balances and deobligate invalid UDOs when possible.
2. Implement policies, or strengthen existing policies, which require PSD to process contract actions timely once all goods and services have been provided to the customer.
3. Update control documentation to reflect instances that invalid UDOs cannot be deobligated based on contractual or administrative matters, as well as update control documentation for the updates made to the control subsequent to March 31, 2020, which expanded the scope of the existing UDO control to review individual contract line items or delivery orders for recent invoice activity.

B. Invalid Unfilled Customer Orders

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

DISA WCF reported more than approximately $3.4 billion in UCOs Without Advance on its March 31, 2020 trial balance. The account balance is supported by several subsidiary ledgers that detail information, such as the customer, order number, order amount, and transaction date, among other unique identifying details for each UCO balance.

In response to the prior-year NFR, DISA developed a quarterly control to identify UCO balances that are unlikely to be fulfilled. The control was designed to record an accounting adjustment of UCOs for Reimbursable Projects related that fund UDOs that remain open 12 months beyond the PoP and were recorded to a project that did not have any invoice activity dormant UCO balances that are in a high-risk category of not being delivered. The control was designed to record an accounting adjustment for UCOs that fund UDOs that remain open 12 months beyond the PoP and were recorded to a project that did not have any invoice activity or delivery orders within the last calendar year. The UCO adjustment was $214.5 million as of March 31, 2020.

Condition: DISA reported 25 invalid TSEAS UCOs totaling an approximate amount of $40.5 million on its March 31, 2020 trial balance that were not captured in its quarterly UCO adjustment. These were determined to be invalid due to expired PoP, 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. Although DISA developed a control to adjust account balances for UCOs that are unlikely to be fulfilled, the control focused on the overall project level activity, as opposed to specific contract line items or delivery orders on that project.

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 appropriate and readily available KSDs to justify the remaining balance. However, not all dormant balances for physically completed contracts were identified and liquidated as of March 31, 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 closeout processing by DISA's PSD, delays in DCAA audits, and due to the need to reconcile and deobligate aged funding balances during the life of the contract. DISA officials indicated that they were reluctant to liquidate individual amounts in its detailed accounting records until these steps have been completed.

Effect: Invalid UCOs resulted in inaccurate reporting by DISA and a known overstatement of approximately $40.5 million as of March 31, 2020 on the Spending Authority from Offsetting Collections line on the FY 2020 SBR. When statistically evaluated against the UoT, the projected overstatement is approximately $100 million.

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, update their control documentation for the updates made to the control subsequent to March 31, 2020 which expanded the scope of the existing UCO control to review individual contract line items or delivery orders for recent invoice activity.

C. Untimely Undelivered Orders 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. The DISA WCF reported approximately $3.1 billion in UDO on its June 30, 2020 trial balance.

Condition: DISA recorded 13 obligations that were not entered into the financial management system within 10 days of the execution of the obligating document.

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

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

- Goods or services may be acquired and/or received prior to an authorized obligation certifying the availability of funds or prior to an authorized contract or purchase order being established. The process of authorizing the obligation and certifying funds availability ensures the completeness of the recorded obligation balances
- The Antideficiency Act could be violated. If obligations are not recorded prior to the acquisition of goods and/or services, 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.

IV. Financial Reporting (*New Condition*)

A. End-of-Year Financial Reporting

Background: DISA is a DoD agency that is required to prepare quarterly and annual financial statements in accordance with GAAP, as established by FASAB. DISA WCF cites Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as its financial reporting framework. In accordance with OMB Circular A-136, DISA WCF prepares an AFR at FY-end, which includes the primary financial statements for the specified reporting period, balance sheet, SNC, Statement of Changes in Net Position, and SBR. These statements are required to be prepared in accordance with OMB Circular A-136 in regard to the presentation and disclosure, as well as in accordance with FASAB standards to be GAAP-compliant. The Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) publishes a schedule each year for required financial reporting deadlines for all DoD reporting entities. For FY 2020, the OUSD(C) FY 2020 DoD Financial Statement and AFR Schedule mandated a due date of October 25, 2020 for the AFR of all DoD reporting entities.

Condition: The DISA WCF Draft AFR was not made available for review to auditors until November 18, 2020, which was 23 days after the due date of October 26, 2020. This was also 24 days later than the DoD required due date of October 25, 2020, per the OUSD(C) FY 2020 DoD Financial Statement and AFR Schedule, and two days after the required statutory deadline of November 16, 2020, at which time final AFRs are required to be to submitted to OMB, U.S. Treasury, the Government Accountability Office (GAO), and Congress. The submission date of November 18, 2020 would have also been too late to perform testing procedures by auditors with the originally scheduled audit conclusion timeline of October 29, 2020.

Additionally, the DISA WCF FY 2020 Q4 draft AFR and footnotes contained various errors not identified by DISA management relating to the mathematical accuracy of the statements, cross-referencing of information between different related parts of the AFR, reconciling financial information to underlying supporting documentation, and various editorial errors.

Cause: DISA WCF's process for preparing an AFR continues to mature but does not yet have adequate review or quality control (QC) procedures to ensure the AFR and footnotes are free from errors during the compilation process. Additionally, DISA relies on its service organization to prepare its AFR with standardized DoD language throughout. The language is intended for all DoD Components and is not adjusted for specific reporting entities. DISA did not have an adequate process in place to perform a thorough review of its AFR and make updates as necessary to ensure the standard language was applicable to DISA WCF.

Effect: Although DISA corrected the errors and discrepancies identified, without appropriate controls and QC processes at year-end, there is an increased risk that there may be errors noted to adequately substantiate whether the support and balances reported within DISA WCF's financial statements are materially correct and presented in accordance with GAAP. Without more robust compilation and review procedures, DISA WCF is at risk of issuing its AFR with errors in the financial and non-financial information, as well as reporting misstatements in its financial reports.

Additionally, without a readily available AFR provided in accordance with year-end financial reporting timelines, DISA management may not be able to perform critical functions to monitor and provide requests necessary to obtain an audit opinion or provide year-end financial statements and reports to the relevant stakeholders and auditors. The testing and financial reporting portion of the audit was originally scheduled to conclude on October 29, 2020. Without an extension granted, the delayed provision of the AFR would not have allowed time to complete required audit procedures and obtain and audit opinion.

Recommendations: Kearney recommends that DISA WCF coordinate internally and with its service organization to perform the following:

1. Review, further develop, implement, and document the processes and controls for the accumulation and review of data prior to the development of the AFR, to include standards for the support needed to substantiate disclosures or other analytical information reported in the AFR.
2. Continue to work with the stakeholders and service organizations responsible for producing portions of the AFR and assess whether the current business processes and reporting timelines hinder DISA WCF's ability to produce a complete AFR in line with DoD financial reporting timelines.
3. Create, further develop, and document additional procedures and/or checklists to:
    a. Ensure consistency in information presented.
    b. Ensure all of the information compiled into the AFR is detail-reviewed at a sufficient level within DISA management.
    c. Document evidence of the detail review through completion of the GAO Financial Audit Manual (FAM) checklists; FAM 2010, *Checklist for Federal Accounting*; and FAM 2020, *Checklist for Federal Reporting and Disclosures*.
4. Design and develop contingency plans to accommodate for personnel support or other operating environment changes that directly limit the entity's ability to create the necessary audit documentation, as well as the required year-end financial statements, footnotes, and MD&A.

B. Lack of Review of Financial Statements

Background: DISA WCF completes a variance analysis over its financial statement line items and documents the financial statement highlights on a quarterly basis. DISA personnel noted that the financial statement line items are reviewed, and any fluctuations determined to be significant are documented. DISA personnel outline the necessary explanations for the variances noted, which result in any balance changes greater than 2% of total assets, or greater than or equal to 10% and $2 million. The Chief of Financial Statements and Audit Support Branch compiles the data and presents the fluctuations and highlights noted to DISA senior leadership on a quarterly basis. DISA's policy is that the variance analysis and the highlights are to then be approved by DISA senior leadership prior to submission to the service organization. Failure to perform a financial statement variance analysis could result in undetected errors and omissions.

Condition: DISA did not document a review and approval over the variance analysis and applicable financial statement highlights for Q1, Q2, and Q3. DISA stated that the senior leadership briefing for the quarterly financial statement variance analysis and highlights had not been conducted for Q1-Q3 as of July 28, 2020.

Cause: DISA has not properly implemented and provided a consistent, timely review of the quarterly variance analysis and financial statement highlights, nor has it maintained evidence of the review.

Effect: There is increased risk that the financial statements and footnotes are not accurate or do not contain all information needed for fair presentation in accordance with GAAP.

Recommendations: Kearney recommends that DISA management perform the following:

1. Design and implement a process to ensure a documented and timely review of the quarterly variance analysis and highlights prior to submission to DISA's service organization for inclusion in the quarterly financial reporting package.
2. Provide updated SOPs based on any updates to agency procedures to ensure understanding and compliance with procedural revisions.

C. Lack of Assessments Related to Reporting Entity Definition and Public-Private Partnership Disclosures

Background: FASAB's SFFAS No. 47, *Reporting Entity*, was established to guide preparers of general purpose Federal financial reports (GPFFR) in determining what organizations to report upon, identifying "consolidation entities" and "disclosure entities," determining what information should be presented for each type of entity, and identifying related parties. Additionally, SFFAS No. 49, *Public-Private Partnerships*, established disclosure requirements for public-private partnerships (P3) in connection with a reporting entity's GPFFR. Federal P3s are defined as "risk-sharing arrangements or transactions lasting more than five years between public and private sector entities." DISA management is responsible for determining the applicable implementation and documenting their review over the FASAB standards and the SFFAS assessments.

Condition: DISA has not completed an assessment to define its financial reporting entity, which has failed to ensure completeness of its financial statements and related disclosures in accordance with SFFAS No. 47. While DISA has identified funds based on reporting limits of the DISA appropriations, a complete assessment of potential consolidation entities and disclosure entities for which Funds are accountable has not been completed. Additionally, DISA had not completed an assessment over SFFAS No. 49 to determine if it has any applicable P3 relationships for which disclosure is required.

Cause: DISA has not implemented appropriate controls to ensure that it has complied with the requirements of SFFAS No. 47 to periodically confirm it has appropriately defined the various components that comprise its reporting entity. DISA also has not implemented sufficient controls to ensure that it has disclosed all P3 relationships under the requirements of SFFAS No. 49.

Effect: There is an increased risk that the DISA financial statements may be incomplete by the omission of consolidation entities and/or disclosure entities for which DISA's reporting entity may be accountable. Further, the Government-wide GPFFR may be incomplete as a result of any missing consolidation or disclosure entities for which DISA has not identified for its GPFFR. There also is an increased risk that the DISA financial statements do not include the required disclosures for applicate P3 relationships.

Recommendations: Kearney recommends that DISA perform the following:

1. Establish a formal process to annually assess and re-validate its GPFFR financial reporting entity for completeness, as well as its P3 relationships, in accordance with the provisions of SFFAS No. 47 and No. 49, respectively. The assessments should be formalized with appropriate review and approval from DISA management. The approved DISA reporting entity definition should be communicated to applicable stakeholders within the OUSD(C) and DISA's service organization.
2. Maintain documentation to demonstrate the completion of the assessments, including the analysis performed, sources referenced, and conclusions reached. DISA should document the assessment process in the form of an SOP to ensure this process is consistently performed at the entity's policy level and performed by each reporting entity (e.g., WCF and General Fund [GF]).
3. Review the compiled financial statements from its service organization for completeness and accuracy to verify the statements have been prepared in accordance with the DISA-defined reporting entity.

V. IT (*Repeat Condition*)

Background: DISA operates in a complex information system environment to execute its mission and record transactions timely and accurately. DISA operates several key financial management systems, including one core GL accounting system and multiple financial support systems for the DISA WCF. DISA also utilizes several service organizations to support its financial operations, to include cash management, property management, payroll processing, and financial reporting. Service organization systems are systems that organizations other than DISA own and operate but still affect the agency's business processes and financial statements. To achieve effective operation of service organization systems, service organizations require user entities (i.e., customers or users of the systems and services provided) to implement certain internal controls, referred to as CUECs.

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 NFRs.

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

- Security Management
  - Incomplete Plan of Action and Milestone (POA&M) management process. Specifically, DISA did not develop, track, and manage POA&Ms for security weaknesses found within key financial management systems through NFRs issued during the FY 2019 financial statement audit
- Access controls and segregation of duties
  - Incomplete segregation of duties within a key financial management system
  - Inconsistent logging and monitoring of activity for a key financial management system
  - Missing and incomplete user access authorization forms for a key financial management system
  - Lack of strong password configurations for a key financial management system
  - Failure to properly secure passwords for a key financial management system
- Service Organizations
  - Insufficient evidence of monitoring service organizations
  - Incomplete implementation of the CUECs.

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

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

Recommendations: Kearney recommends that DISA perform the following:

1. Develop, update, and implement policies and procedures addressing the security controls required by NIST SP 800-53, Rev. 4.
2. Develop and implement a QC review over the user authorization process, to include procedures to ensure completion of the System Authorization Access Request (SAAR) and the User Account Access Checklist forms, validating requested roles and data owner approval.
3. Continue to implement procedures for documentation and monitoring intentional established SD conflicts. These procedures should include, at a minimum, maintaining documentation of business justifications for assigning conflicting roles, the expiration timelines for conflicting roles, and monitoring controls to mitigate the associated risks.
4. Continue to develop and document policies and procedures for reviewing the impact of each service organization's SOC 1® report.
5. Continue to develop and document DISA's review of each service organization's SOC 1® report.
6. Develop, update, and document policies and procedures for addressing CUECs, as identified within each service organization's SOC 1® report.
7. Implement all CUECs.

* * * * *

APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

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 Payable/Expense and Accounts Receivable/Revenue	Material Weakness	Material Weakness
Budgetary Resources	Material Weakness	Material Weakness
Information Technology	Material Weakness	Material Weakness

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

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

We have audited, 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*, the Working Capital Fund (WCF) 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 WCF's financial statements and have issued our report thereon dated December 17, 2020.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DISA WCF, 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 WCF. 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 as described in the accompanying Schedule of Findings.

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
December 17, 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 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 security management, access controls, segregation of duties, implementation of complementary user entity controls (CUEC), and monitoring of third-party service organizations, and they represent instances of noncompliance with information security requirements.

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.

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*.

As discussed in the *Report on Internal Control over Financial Reporting*, the audit identified the following five material weaknesses in internal control which, when aggregated, represent noncompliance with FMFIA and OMB Circular A-123:

1. Fund Balance with Treasury
2. Accounts Receivable/Revenue and Accounts Payable/Expense
3. Budgetary Resources
4. Financial Reporting
5. Information Technology.

* * * * *

DISA Management Comments to Auditors Report

DEFENSE INFORMATION SYSTEMS AGENCY

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

Zavada:

DISA acknowledges receipt of Kearney & Company's draft audit report for DISA's FY 2020 Working Capital Fund (WCF) financial statements.

We acknowledge the auditor-identified findings in the following key areas: 1) Fund Balance with Treasury, 2) Accounts Receivable/Accounts Payable, 3) Budgetary Resources, 4) Financial Reporting and 5) Information System Security Controls, each of which, in the aggregate are considered material weaknesses.

DISA has worked hard to successfully resolve audit issues during the year, leading to a positive opinion. We will focus on building on this success and resolving any remaining audit issues during the upcoming audit cycle.

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GREG SWONGER
Director, Accounting Operations
and Compliance