Defense Information Systems Agency
General Fund
Agency Financial Report
Fiscal Year 2021

Message from the Defense Information Systems Agency

As director of the Defense Information Systems Agency (DISA), I am pleased to present the Annual Financial Report (AFR) for the DISA General Fund, as of Sept. 30, 2021. The AFR financial statements and accompanying footnotes also include Management Discussion and Analysis and a Performance and Financial Section, which contains the auditor's signed report. The AFR is prepared as directed by Office of Management and Budget (OMB), Circular A-136.

DISA's mission supports the warfighter, while also consistently posturing itself in everyday operations and execution of its mission to promote the department's goal to achieve auditable financial statements. The agency endeavors to be a trusted provider to its mission partners, as well as to provide a distinct position of trust to the American people. DISA engages in modernization to improve the security, resiliency, and capacity for sound infrastructure and to ensure DoD networks achieve greater performance and affordability in a secure, integrated, and improved environment. As a vital part of infrastructure, audit is embedded in the agency from a top-down and bottom-up enterprise-wide undertaking engaging the DISA workforce.

DISA executed its internal control program 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 and compliance are operating effectively as of Sept. 30, 2021. DISA is unable to provide assurance that internal controls over reporting are operating effectively as discussed in the AFR. DISA has executed actions to remedy inadequacies.

The agency continues to improve our structure to execute our strategy more effectively. This is accomplished by modernization; optimization; strengthening and driving innovation while promoting accountability; reducing duplication; and improving cost management.

ROBERT J. SKINNER
Lieutenant General, USAF
Director

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DISA General Fund Fiscal Year 2021
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) 2021 Consolidated Financial Statements. The key sections within this MD&A include the following:

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

Elements of the report, such as DISA's organizational structure, ethos and strategic plan, reflect DISA in FY 2021 and do not take into account updates and changes made starting in FY 2022.

1. Mission and Organizational Structure

History and 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 charged with connecting the force by linking processes, systems, and infrastructure to people.

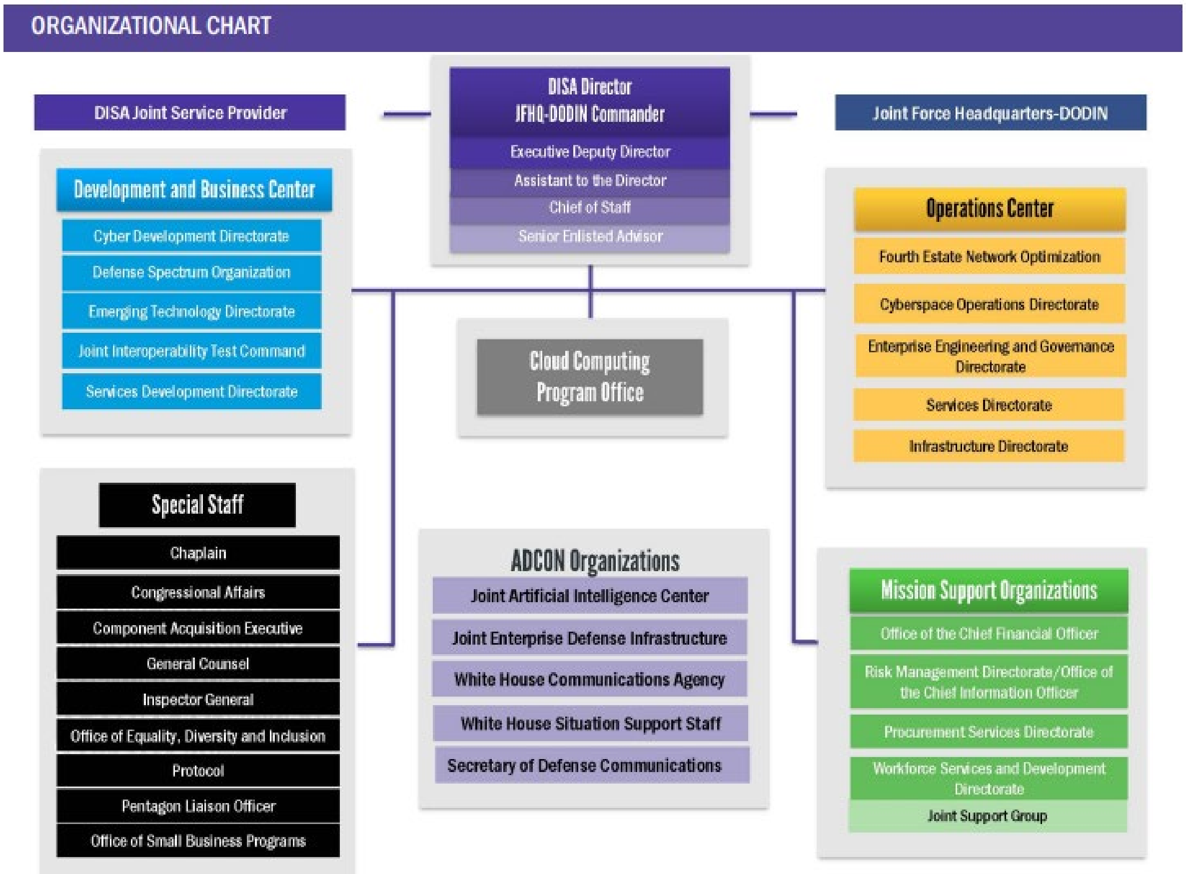
DISA's roots go back to 1959 when the JCS requested the SECDEF approve a concept for a joint military communications network to be formed by consolidation of the communications facilities of the military departments. This would ultimately lead to the formation of the Defense Communications Agency (DCA), established May 12, 1960, with the primary mission of operational control and management of the Defense Communications System (DCS). On June 25, 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.

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 CIO who reports directly to the secretary of defense. The organizational structure for DISA as of June 2021 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 Chiefs 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 Systems 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.

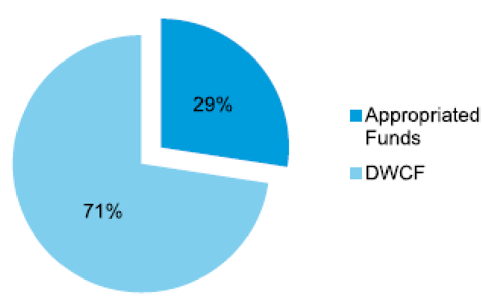
6. "Special Mission Areas" enables the agency to execute special missions to provide the communications support required by the president as commander-in-chief, including day-to-day management, fielding, operation, and maintenance of communications and information technology. The White House Communications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

Resources: DISA is a combat support agency of the DoD with a $11.9 billion-dollar annual budget.

BUDGET

Appropriated
(Based on fiscal year 2021 President's Budget - Enacted)
Total Appropriated: $3.4 Billion

Defense Working Capital Fund
(Based on fiscal year 2021 President's Budget)
Total DWCF: $8,5 Billion



** As of April 2021

Global Presence:
DISA is a global organization of approximately 6,500 civilian employees; approximately 1,500 active-duty military personnel from the Army, Air Force, Navy, and Marine Corps; and over 10,000 defense contractors. This data is as of June 30, 2021. DISA's headquarters is at Fort Meade, Maryland, and has a presence in 25 states and the District of Columbia within the United States, and in seven 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 (OCFO), Component and Acquisition Executive (CAE), Development and Business Center (DBC), Chief of Staff, Inspector General (IG), Joint Force Headquarters-Department of Defense Information Network (JFHQ-DODIN), JSP, Operations Center (OC), Procurement Services Directorate (PSD), Risk Management Executive (RME), White House Communications Agency (WHCA), 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 and 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 FY 2019-2022 Strategic Plan (Version 2) include:

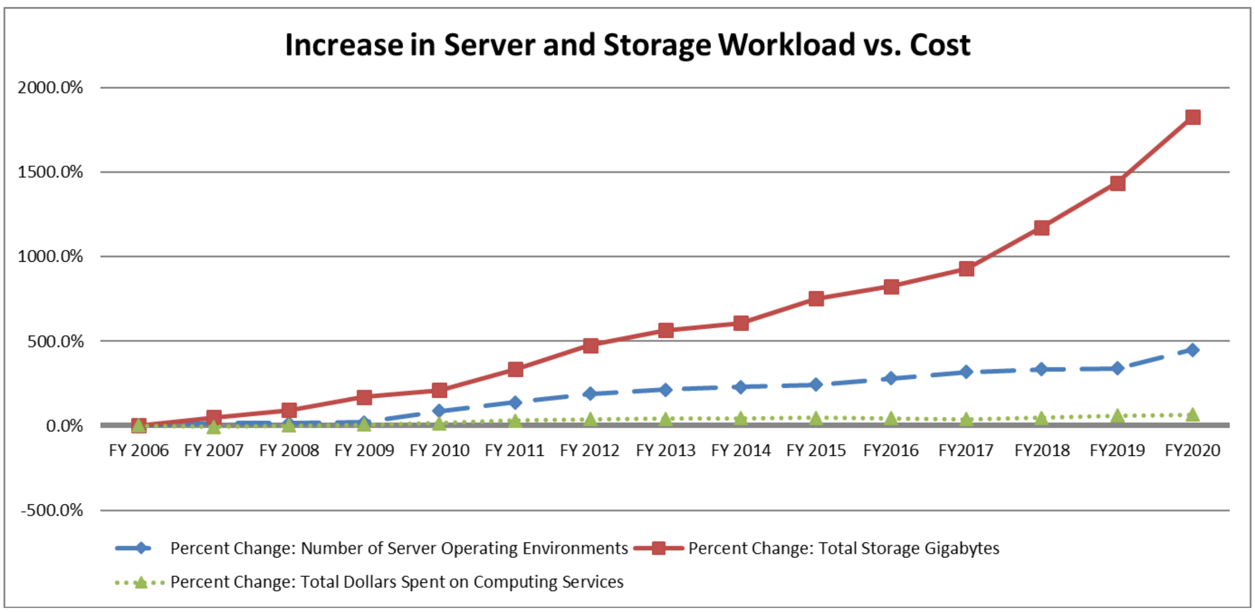
Strategic Goals	Strategic Objectives
Operate and Defend	1.1 Modernize the Infrastructure 1.2 End User Support 1.3 Computing 1.4 Defensive Cyber Operations-Internal Defensive Measures Readiness
Adopt Before We Buy and Buy Before We Create	2.1 Optimize for the Enterprise 2.2 Strengthen Cybersecurity 2.3 Drive Innovation
Enable People and Reform the Agency	3.1 Enable People 3.2 Reform the Agency

DISA's strategic framework presents goals, objectives, and capabilities to support the agency's mission of conducting DODIN operations. DISA's goals that uphold its enduring mission include the following: to operate and defend; adopt before we buy and buy before we create; and enable people and reform the agency. The agency continues to augment and improve our structure to more effectively execute our strategy by modernizing, optimizing, strengthening and driving innovation while promoting accountability, reducing duplication, and improving cost management.

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 data centers.



The Computing Service business area tracks its performance and results through the agency director's Quarterly Performance Reviews. There are two key operational metrics that 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 the vendor reports the actual value on a monthly basis.

Core Data Center Availability

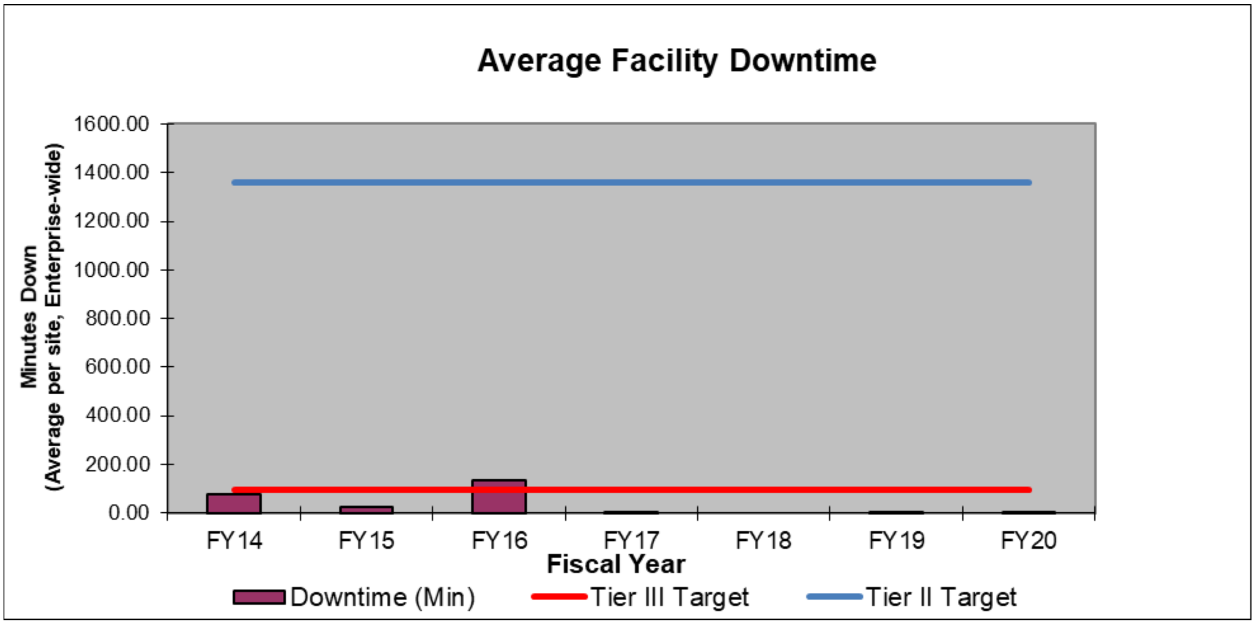
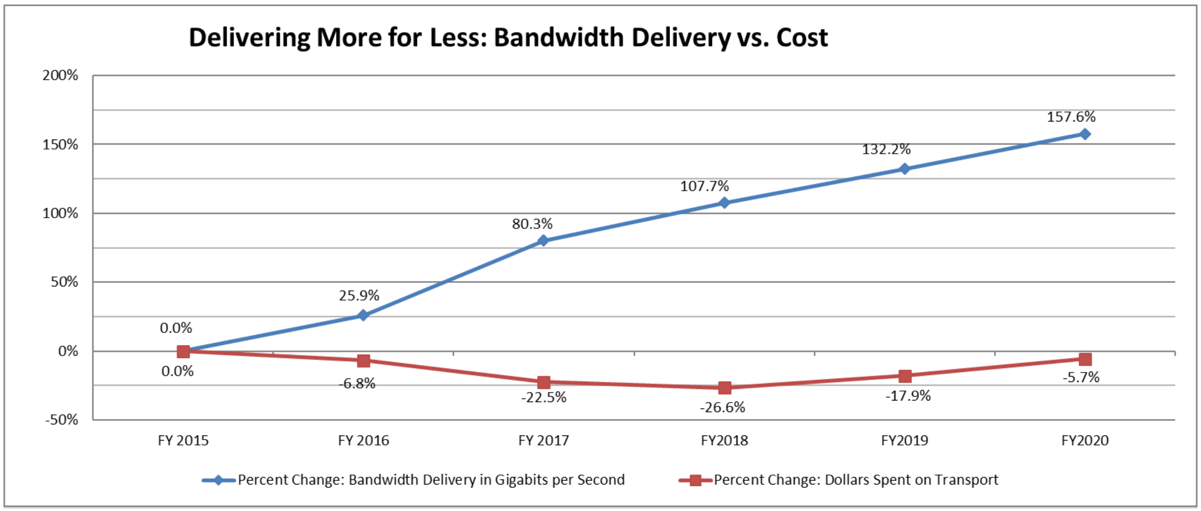


Figure 1- Capacity Service Contract Equipment Availability

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

<u>Telecommunications Services Performance Measures</u>

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 element 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 goal 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 percent 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:

Figure 2-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	<= 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 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 the Defense IT Contracting Organization (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:

Figure 3- EAS Performance Measures

SERVICE OBJECTIVE	FY 2020 Estimated Actual	FY 2021 Operational Goal	FY 2022 Operational Goal
Percent of total eligible contract dollars completed	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 maintain senior leader tone-at-the-top. The DISA Audit Committee is composed of three members who are 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 General Fund Financial Highlights

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

Executive Summary

The DISA GF financial statements for the quarter ended Sept. 30, 2021, reflect a fund that had a decrease in overall appropriations in FY 2021 compared with FY 2020. See table below for comparative data for appropriations received between these two fiscal years.

Figure 4-Executive Summary

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)	$ 2,536,949	$ 2,878,480	$ (341,530)	-12%
PROC (0300)	511,269	405,035	106,234	26%
RD&E (0400)	408,986	505,763	(96,777)	-19%
MILCON (0500)	33,978	0	33,978	100%
Consolidated Balance	$ 3,491,182	$ 3,789,278	$ (298,096)	-8%

All general ledger subsidiary details have been reconciled to the field level accounting system trial balances, and all journal vouchers posted to the Defense Departmental Reporting System-Budgetary

(DDRS-B) and Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS) have been reconciled to ensure that the DDRS-AFS trial balance is 100 percent supported by transaction details. All journal vouchers posted in DDRS-B and DDRS-AFS by the Defense Finance and Accounting Services (DFAS) have been reviewed and approved by DISA staff.

The following financial statement highlights present an explanation of amounts reported in significant financial statement line items and/or financial notes, and variances between the fourth quarter of FY 2021 reported balances and those in the fourth quarter of FY 2020. Additionally, as required by the recent Office of the Secretary of Defense (OSD) guidance for variance analysis, the comparison of the balance sheet between current period and prior year-end will also be addressed. Balances that have the same underlying explanation between budgetary and proprietary accounts are explained from the proprietary perspective and referenced from the budgetary perspective. Due to rounding, tables in this document may not add to overall totals.

CONSOLIDATED BALANCE SHEET

Assets

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 2021 and FY 2020 by appropriation presented in a comparative manner:

Figure 5-Fund Balance with Treasury

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)	$ 1,368,681	$ 1,529,529	$ (170,847)	-11%
PROC (0300)	912,645	1,116,311	(203,666)	-18%
RD&E (0400)	370,925	462,328	(91,403)	-20%
MILCON (0500)	49,842	18,567	31,275	168%
Consolidated Balance	$ 2,702,093	$ 3,136,735	$ (434,642)	-14%

Amounts recorded in the general ledger for Fund Balance with Treasury (FBWT) have been 100 percent reconciled to amounts reported in the DFAS Cash Management Report (CMR), representing DISA General Fund's portion of the TI97 appropriated account balances reported by the Department of Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level. The consolidated undistributed balance as of Sept. 30, 2021, is $26.1 million, compared with $101.2 million on Sept. 30, 2020.

Accounts Receivables, Net - Accounts Receivables balances by appropriation as of Sept. 30, 2021, and Sept. 30, 2020, are as follows:

Figure 6-Accounts Receivable, Net

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 42,440	$ 37,802	$ 4,638	12%
Public	1,126	569	557	98%
PROC (0300)				
Intragov.	3,775	6,170	(2,395)	-39%
Public	109	0	109	100%
RDT&E (0400)				
Intragov.	3,783	5,994	(2,211)	-37%
Public	110	8	102	1326%
Consolidated				
Intragov.	49,998	49,966	31	0%
Public	1,345	577	768	133%
Total Consolidated	$ 51,342	$ 50,543	$ 799	2%

- The Increase in operations and maintenance (O&M) (0100) intragovernmental accounts receivable (A/R) is attributable to the net of a $11.6 million decrease in undistributed collections, a $15.6 million dollar increase in overall A/R, and a $0.4 million increase in eliminations entries.

- The decrease in procurement (PROC) (0300) Intragovernmental A/R is attributable to the net of a $4.8 million decrease in undistributed collections and a $3.3 million dollar increase in overall A/R, and a $0.9 million increase in eliminations entries.

- The decrease in research, development, test and evaluation (RDT&E) (0400) Intragovernmental A/R is attributable to the net of a $1.7 million decrease in undistributed collections and a $5.2 million dollar decrease in overall A/R, and a $4.6 million decrease in eliminations entries.

- The overall increase in Public A/R is due to a change in the way trading partner information fed into DDRS. As a result, there was an increase to on-the-top adjustments made to reclassify refunds receivable from federal to non-federal. We are researching the issue.

General Property, Plant and Equipment, Net - General Property, Plant and Equipment balances by appropriation as of Sept. 30, 2021, and Sept. 30, 2020, are as follows:

Figure 7-General PP&E, Net

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)	$ 15,602	$ 16,149	$ (547)	-3%
PROC (0300)	394,068	368,648	25,420	7%
RDT&E (0400)	31,884	3,563	28,320	795%
MILCON (0500)	17,843	18,291	(448)	-2%
Consolidated	$ 459,397	$ 406,651	$ 52,746	13%

- The 7 percent increase in PROC (0300) general property, plant, and equipment (PP&E) of $25.4 million is driven by:
  - A $53.9 million increase in equipment purchases, including a White House Communications Agency lifecycle refresh and replacing network equipment;
  - A $27.0 million decrease in accumulated depreciation of equipment;
  - A $13.6 million increase is related to construction-in-progress (CIP) infrastructure purchases from DISA WCF-related to the Joint Regional Security Stacks (JRSS) program, and an increase in purchases for DISN-related programs;
  - An $11.5 million decrease in internal-use software purchases.
- The 795 percent increase in RDT&E (0400) General PP&E of $28.3 million is related to $10.0 million for DoDNet licenses, $3.0 million for SATCOM licenses, and $1.7 million for White House Situation Support Staff (WHSS) licenses.

<u>Liabilities</u>

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

Figure 8-Total Liabilities Not Covered by Budgetary Resources

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 971	$ 1,154	$ (183)	-16%
Public	48,730	48,693	38	0%
Consolidated				
Intragov.	971	1,154	(183)	-16%
Public	48,730	48,693	38	0%
Consolidated	$ 49,701	$ 49,847	$ (146)	0%

- Federal liabilities O&M decreased by 16 percent due to a $0.2 million reduction in unfunded FECA liability.

Total Liabilities Covered by Budgetary Resources - Total Liabilities Covered by Budgetary Resources are made up of four types of liabilities: (1) Accounts Payable (A/P) balances are recorded in various ways based on the underlying transaction. DISA staff evaluate purchases recorded, accrues cost and A/P for service-based orders as applicable. A/P for goods is based on receipt of invoice. DISA continues to refine the accrual methodology processes to more accurately match the recording of cost with the period of performance or estimated delivery date. (2) Accrued Funded Payroll and Leave, (3) Employer Contributions and Payroll Taxes, (4) Liabilities of Advances and Prepayments. Balances reported as of Sept. 30, 2021, and Sept. 30, 2020, consist of the following:

Figure 9-Total Liabilities Covered by Budgetary Resources

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 258,107	$ 284,062	$ (25,955)	-9%
Public	16,652	(31,364)	48,016	-153%
PROC (0300)				
Intragov.	62,806	122,249	(59,443)	-49%
Public	6,952	(46,592)	53,544	-115%
RDT&E (0400)				
Intragov.	43,630	42,192	1,438	3%
Public	6,136	(2,476)	8,612	-348%
MILCON (0500)				
Intragov.	68	0	68	100%
Public	70	(741)	812	-110%
Consolidated				
Intragov.	364,611	448,503	(83,892)	-19%
Public	29,810	(81,173)	110,983	-137%
Consolidated	$ 394,421	$ 367,330	$ 27,091	7%

- The O&M (0100) intragovernmental decrease is driven by a $14.3 million decrease in normal A/P and a $12.2 million decrease in undistributed A/P disbursements. The public increase is driven by a $44.5 million decrease in abnormal undistributed A/P disbursements.

- The PROC (0300) intragovernmental decrease is driven by a $36.6 million decrease in undistributed A/P disbursements and a $22.8 million decrease in normal A/P. The public increase is driven by a $47.1 million decrease in abnormal undistributed A/P disbursements and a $4.8 million increase in normal undistributed A/P disbursements.

- The RDT&E (0400) public increase is driven by a $14.1 million decrease in abnormal undistributed A/P disbursements and a $4.9 million decrease in normal A/P.

Other Liabilities - Other Liabilities primarily comprise five types of liabilities: (1) Accounts Payable (A/P) balances associated with cancelled appropriations. If an A/P balance remains when an appropriation is cancelled, it is re-established. This would primarily occur if there were an accrual recorded that is still anticipated or invoiced or the contract closeout has not occurred. If the amount is ever invoiced, it would be paid from current year appropriations. (2) Unfunded annual leave and FECA balances. These liabilities are accrued in the current period and will be funded when they come due in future years. (3) Accrued Funded Payroll and Leave. (4) Employer Contribution and Payroll Taxes Payable (health benefits, life insurance, and retirement). (5) Liability for Advances and Prepayments.

Figure 10-Other Liabilities

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 5,741	$ 5,362	$ 379	7%
Public	17,160	17,425	(266)	-2%
RDT&E (0400)				
Public	4,613	5,182	(569)	-11%
Consolidated				
Intragov.	5,741	5,362	379	7%
Public	21,773	22,607	(835)	-4%
Consolidated	$ 27,513	$ 27,969	$ (456)	-2%

- Other Liabilities decreased overall by $0.5 million, driven by a $0.4 million increase to Federal Employee and Veteran Benefits, a $0.5 million increase in Non-Federal Accrued Funded Payroll and Benefits (0100), a $0.8 million decrease in Non-Federal Advances from Others and Def Revenue (0100), and a $0.5 million decrease to Non-Federal Advances from Others and Def Rev (0400).

CONSOLIDATED STATEMENT OF NET COST

Net Cost of Operations increased by $301.8 million (8 percent) between the fourth quarter of FY 2020 and the fourth quarter of FY 2021. The change in Net Cost of Operations comprises an increase in gross cost of $322.5 million and a decrease in earned revenue of $20.7 million.

Figure 11-Consolidated Statement of Net Cost

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)	$ 2,928,431	$ 2,670,298	$ 258,133	10%
PROC (0300)	535,511	646,348	(110,837)	-17%
RDT&E (0400)	512,343	362,218	150,125	41%
MILCON (0500)	2,758	(1,643)	4,401	-268%
Consolidated	$ 3,979,043	$ 3,677,221	$ 301,822	8%

- The increase in O&M (0100) is attributable to
  - A $293.3 million increase in operating expenses/program costs, $132.2 million of which is related to COVID-19 expenses. Additional detail:
    - $268.8 million increase in contractual services;
    - $18.7 million increase in full-time permanent personnel compensation;
    - $16.9 million increase in equipment;
  - A $28.5 million increase in earned revenue.

- The decrease in PROC (0300) is attributable to
    - A $78.7 million decrease in depreciation, amortization, and depletion, and a $49.9 million increase in depreciation, amortization, and depletion – equipment.
    - A $71.2 million decrease in operating expenses/program costs:
        - $189.7 million decrease in equipment;
        - $127.7 million increase in contractual services;
    - A $13.7 million decrease in other inventory losses.

- The increase in RDT&E (0400) operating expenses/program costs is driven by a $146.2 million increase in contractual O&M of equipment and research and development (R&D) contracts.

- The decrease in military construction (MILCON) (0500) operating expenses/program costs is driven by a $9.0 million reduction in prior year abnormal expenses and a $3.7 million decrease in land and structures.

STATEMENT OF CHANGES IN NET POSITION

- Other Financing Sources: Transfers-in/out without reimbursement decreased $460.0 million (80 percent) overall. The primary contributing factors in the decrease of PP&E are a $353 million reduction in O&M related to the transfer of a Ft. Meade building from DISA to the Army, as mandated by OSD, an additional decrease of $78.8 million to PROC related to the transfer-out of general property, plant, and equipment to the DISA WCF related to DISN and JRSS, and an increase of $28.3 million to RDT&E for internal-use software.

- Other Financing Sources: Imputed financing from costs absorbed by others decreased by $0.7 million (.26 percent) overall. This is attributable to an increase of $0.5 million in the imputed costs of military personnel supporting DISA, a decrease of $3.9 million in the imputed costs of real property: costs related to DISA's transfer of the HQ Ft. Meade building to the Army in FY 2020, and an overall increase of $2.8 million in the imputed cost of Office of Personnel Management (OPM) civilian benefits.

STATEMENT OF BUDGETARY RESOURCES

Net Outlays, Reimbursements Earned – Receivable, and Delivered Orders – Unpaid[1] are reconciled with their proprietary account counterparts (FBWT, Account Receivable, and Accounts Payable) respectively and those variances are consistent with the variances described above. The results and variances of other key amounts reported in the Statement of Budgetary Resources are as follows:

Figure 12-Statement of Budgetary Resources

(thousands)

DISA GF	9/30/2021	9/30/2020	Inc/Dec	% Chg.
O&M (0100)				
Obligations Incurred	$ 2,822,039	$ 3,052,533	$ (230,494)	-8%
Unobligated Balances	213,409	112,343	101,067	90%
Undelivered Orders	986,517	1,286,706	(300,189)	-23%
Unfilled Customer Orders	(63,480)	(76,813)	13,333	-17%
PROC (0300)				
Obligations Incurred	499,722	530,089	(30,367)	-6%
Unobligated Balances	245,213	182,314	62,900	35%
Undelivered Orders	612,855	872,686	(259,831)	-30%
Unfilled Customer Orders	(11,407)	(8,241)	(3,166)	38%
RD&E (0400)				
Obligations Incurred	466,342	578,169	(111,827)	-19%
Unobligated Balances	122,333	113,029	9,304	8%
Undelivered Orders	244,321	369,152	(124,831)	-34%
Unfilled Customer Orders	(41,777)	(50,018)	8,241	-16%
MILCON (0500)				
Obligations Incurred	27,159	926	26,233	2832%
Unobligated Balances	21,460	12,402	9,058	73%
Undelivered Orders	28,244	6,905	21,339	309%
Consolidated				
Obligations Incurred	$ 3,815,262	$ 4,161,717	$ (346,456)	-8%
Unobligated Balances	$ 602,415	$ 420,088	$ 182,327	43%
Undelivered Orders	$ 1,871,938	$ 2,535,449	$ (663,512)	-26%
Unfilled Customer Orders	$ (116,663)	$ (135,071)	$ 18,408	-14%

[1] Net Outlays will impact the following lines on the SBR: 1890 – Spending Authority from Offsetting Collections, 3020 – Outlays, Gross, 3090, Uncollected Payments End of Year, 4178 – Change in Uncollected Payments, 4185 – Outlays, Gross, 4187 – Offsetting Collections, and 4190/4210 – Net Outlays. Reimbursements Earned – Receivable will impact the following lines on the SBR: 3060 – Uncollected Payments Brought Forward, 3072 – Change in Uncollected Payments. Delivered Orders – Unpaid impacts the following lines on the SBR: 3050 – Unpaid Obligations End of Year.

Obligations Incurred

- O&M (0100) net decrease is driven by
    - An overall $122.1 million decrease in total obligations (driven by a $293.7 million increase in unpaid undelivered orders, $264.5 million decrease in paid delivered orders, a $261.9 million decrease in unpaid delivered orders, and clearing $110.6 million of upward adjustments from prior year (PY) unpaid delivered orders;
    - A $63.9 million decrease in contractual services for O&M of equipment (driven by an $817.8 million decrease in unpaid undelivered orders, a $627.3 million increase in paid delivered orders, and a $105.7 million increase in unpaid delivered orders); and
    - A $50.1 million decrease in contractual advisory and assistance services (driven by a $38 million decrease in paid delivered orders and a $19.4 million decrease unpaid undelivered orders).
- PROC (0300) net decrease is driven by
    - A $100.9 million decrease in equipment (driven by a $272.8 million decrease in paid delivered orders, a $133.9 million increase in unpaid undelivered orders, and a $38.5 million increase in unpaid delivered orders);
    - An $89.4 million increase in contractual O&M of equipment (driven by a $47.5 million increase in paid delivered orders and a $33.7 million increase in unpaid undelivered orders);
    - A $22.6 million decrease in total obligations (driven by a $15.1 million decrease in paid delivered orders and a $5.2 million decrease in unpaid undelivered orders).
- RDT&E (0400) net decrease is driven by
    - A $50.1 million decrease in contractual O&M of equipment (driven by a $178.1 decrease in unpaid undelivered orders and a $124.5 million increase in paid delivered orders);
    - A $44.6 million decrease in contractual R&D contracts (driven by a $111.3 million decrease in unpaid undelivered orders and a $73.2 million increase in paid delivered orders);
    - A $21.4 million decrease in total obligations (driven by a $47.9 million increase in unpaid undelivered orders, a $37.6 million decrease in unpaid delivered orders, and a $31.7 million decrease in paid delivered orders).
- MILCON (0500) increase is driven by a $25.5 million increase in land and structures (driven by a $29.1 million increase in unpaid undelivered orders and a $5.5 million decrease in paid delivered orders).

Unobligated Balances

- O&M (0100) unobligated balance increase is driven by a $111.8 million increase in allotments – expired authority.
- PROC (0300) unobligated balance increase is driven by a $42.9 million increase in allotments – expired authority, and a $29.7 million increase in resources available for obligation or commitment (realized resources).
- RDT&E (0400) unobligated balance net increase is driven by a $16.0 million increase in allotments – expired authority, a $15.0 million decrease in resources available for obligation or commitment (realized resources), and an $8.3 million increase in commitments subject to apportionment.

- MILCON (0500) unobligated balance increase is driven by a $4.3 million increase in resources available for obligation or commitment (realized resources) and a $5.3 million increase in allotments – expired authority.

RECONCILIATION OF NET COST TO NET OUTLAYS

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the DISA GF's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the DISA GF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the DISA GF. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

The FY 2020 reconciliation was modified to conform to the FY 2021 presentation.

The reconciling difference of $80 thousand is related to Line R1C2, not including Standard General Ledger (SGL) 721000.9000, which is included in Statement of Net Cost (SNC) Net Cost of Operations, but not in the Statement of Budgetary Resources (SBR) Net Outlays. The fluctuation is due to adjusting entries made for equipment sent to the Defense Logistics Agency (DLA) that was no longer in use.

4. Management Systems, Controls and Compliance with Laws and Regulations

Management Assurances
DISA's management structure, policies and procedures, and internal control reviews of key mission processes contribute to the assurance that our internal controls are operating as intended. Our governance board and internal control structure, along with the Risk Management and Internal Control (RMIC) Program, is managed through a three-tiered approach, as described in subsequent paragraphs. The first tier is supported by the DISA Senior Assessment Team (SAT), which provides guidance and oversight to the RMIC Program. The second tier is supported by the subject matter expert 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 IC teams maintain a charter that is available on DISA's webpage. AUMs are appointed in writing each year, and the appointment letter delineates the role and responsibilities of the AUMs.

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

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

The Office of the Chief Financial Officer (OCFO)/Comptroller has oversight of DISA's RMIC Program. Agency AUMs perform testing and report results for Internal Controls Over Reporting - Operations (ICOR-O) Non-Financial. Tests and reports of results are conducted for the Internal Controls Over Reporting - Financial Systems (ICOR-FS) for the agency. In addition, the OCFO Office conducts testing and reports on the overall Internal Controls Over Reporting - Financial Reporting (ICOR-FR) for the agency.

Testing is conducted to ensure the internal control structure is adhering to the components of the Government Accountability Office (GAO) Green Book objectives of operations, reporting, and compliance. 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 Office of Management and Budget (OMB) Circular No. A-123 and the GAO Green Book. Included is our evaluation of whether the system of internal controls for DISA is compliant with standards prescribed by the comptroller general.

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

- Operations: effectiveness and efficiency of operations
- Reporting: reliability of financial and non-financial reporting for internal and external use

- Compliance: adherence to applicable laws and regulations, including 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 DISA's mission objectives are achieved and 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 while achieving 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 for operations and compliance. Due to the inconsistencies surrounding reporting, reasonable assurance has not been achieved, primarily because of the exceptions identified on DISA's GF. This position on reasonable assurance is within the limits described in the preceding paragraph.

FY 21 Internal Control Program Initiatives and Execution

In FY 2020, the Manager's Internal Control Program (MICP) was renamed to the Risk Management and Internal Control (RMIC) Program. In FY 2021, there were requirements with a focus on the priorities of correcting prior year significant deficiencies and material weaknesses (MW); entity level controls; risk assessments aligned to performance management and key processes; oversight and monitoring; Coronavirus Aid, Relief, and Economic Security (CARES) Act Spending compliance; fraud control leading practices; improper payment recovery; and Security Assistance Accounts. In executing DISA's internal control program, each of these areas are highlighted below.

Correction of Prior Year Significant Deficiencies and Material Weaknesses:
One of the department's focus areas is to make progress towards resolution of prior year MWs and conditions impeding audit progress. DISA has made concentrated efforts to resolve and clear prior year issues. In FY 2021, DISA remedied and submitted requests for closure of 47 validated corrective action plans. At the time of this memorandum, eight have been approved for closure by the independent audit firm (IPA).

Entity Level Controls (ELCs):
ELCs represent the overriding management controls that create an environment of management oversight for the financial and non-financial activities of the department and DISA as an agency. DISA management develops and maintains internal control activities that comply with the five standards promulgated by the GAO. These include Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Underlying these five control components, the Green Book states 17 control principles that represent fundamental elements associated with each component of control and recognizes that there are significant interdependencies among the various control principles. As a focal point in the FY 2021 audit, DISA's IPA was briefed on 15 walkthroughs that provided an overview as well as discussions of the controls in place.

Enterprise Approach to Risk Management:
Through its risk assessment, 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 NDS 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 "undergo an audit and 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. The RMIC Program is managed through a three-tiered approach, which provides a structure to identify risk at an enterprise level, as well as at a more granular level. The DISA director provides a "tone-at-the-top" memo, which defines management's leadership and commitment towards an effective internal control structure. The second tier is supported by the Internal Control team, consisting of subject matter experts providing guidance and execution of the program throughout the agency. The third tier is supported by the AUMs who manage at the program/directorate level within the organization. Each directorate's senior leadership, in coordination with each assessable unit, identify areas of risk, 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.

Oversight and Monitoring:
DISA's internal control structure of training provides assistance to AUMs. ELCs; risk assessments; continuous testing in mandatory and high-risk areas; reviews, updates and management approval of process narratives and cycle-memos; corrective action plans (CAPs); and senior accountable officials (SOAs) letters of assurance are all core to an integral program of oversight and monitoring. In addition, the Senior Assessment Team (SAT) met Aug. 5, 2021, and provided oversight to the internal control program through discussion of results and anticipated outcomes to be reported in the FY 2021 Statement of Assurance.

Payment Integrity/Improper Payment Recovery:
For compliance with the Payment Integrity Information Act of 2019 (Pub. L. No. 116-117, 31 U.S.C. § 3352 and § 3357), DISA has an internal control structure in place to mitigate improper payments that could result in payment recovery actions. Actions taken to prevent overpayments include testing and review of 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. Controls are in place through established policy and procedures, training, separation of duties, and data mining to identify risks and fraud vulnerabilities. Additionally, the DFAS, as DISA's accounting service provider, performs overpayment recapture functions on behalf of DISA. DFAS includes DISA transactions in their sampling populations for improper payment testing. There have been no reportable issues regarding payment integrity and improper payment recovery in FY 2021.

CARES Act/COVID-19:
The Department of Defense was allocated $10 billion in the CARES Act signed on March 2, 2020, (Public Law 116-136), to support military response to the public health emergency domestically and internationally. DISA has been allotted $182.9 million in CARES Act funding. The CARES Act provides the DoD flexibility in executing contract actions to expedite disbursement of these funds efficiently and effectively. In execution of this funding, the risk for fraud, waste, and abuse is heightened when internal controls are relaxed. COVID-19-related activity has been reviewed and tested using verification and validation (V&V) procedures. There have been no laws compromised or major issues identified leading to fraud, waste, or abuse as validated through testing results for FY 2021. Areas of improvements for CARES Act execution include ensuring requirements are aligned with spending plans and ensuring that

transactions accurately reflect the Disaster Emergency Fund Code (DEFC) and National Interest Action (NIA) code.

Fraud Controls:
In FY 2021, the DISA fraud control environment was evaluated by using the DoD Fraud Control Assessment template. The template includes example of control attributes related to the GAO leading practices to assist with identifying existing fraud controls and identifying gaps that require designing new or additional controls. The GAO framework includes 11 leading practices that were considered for ICOR-O, ICOR-FR, and ICOR-FS for high-risk focus areas.

Security Assistance Agency (SAA)/Foreign Military Sales (FMS):
DISA is an implementing agency (IA) that supports the execution of military assistance programs. The IA is responsible for the overall management of the actions that will result in delivery of the materials or services as stated in agreements established between a foreign country or international organization and DISA. In partnership with the Defense Security Cooperation Agency (DSCA), DISA is in the initial stages of a financial statement audit. As of FY 2021, DISA does not have a financial reporting function in place to warrant an audit. However, the internal control structure already in place for DISA's General Fund and Working Capital Fund (WCF) is leveraged for the FMS process. FMS is under the umbrella of the Development and Business Center (DBC), which performs mandatory operational testing and is included in the organization's letter of assurance.

Data Act Data Quality Testing:
The Office of Management and Budget (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). 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. In FY 2021, the internal control program further refined its data quality testing to review data integrity. Results of the testing provided no major issues with the established attributes in the first three quarters of the current fiscal year.

Accomplishments

DISA strives to improve in its internal control environment. Two significant accomplishments for financial reporting:

- Internal controls: The One Fund program consolidates the two existing DISA WCF entities into a single fund and operating environment. This environment has been successful in reporting as One Fund entity.

- Audit opinion progress: In FY 2021, DISA WCF received an unmodified opinion on its FY 2020 financial statements. This is a tremendous accomplishment for not only DISA, but also the DoD. An achievement like this is no easy task. The numbers speak for themselves on the level of effort needed to support the audit. For the WCF, there were 854 provided by client (PBC) requests, over 3,500 samples with over 13,000 artifacts provided. These numbers don't include the time spent in meetings and walkthroughs with the auditors and are more impressive when you take a step back and realize that during most of the year, the audit work was done virtually due to the COVID-19 pandemic.

Internal Control Structure

Using the following process, DISA evaluated its system of internal control and maintains a 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 the 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 November 2020 and conducted additional workshops in December 2020. The RMIC team compiles assessable unit (AU) submissions for the agency's Statement of Assurance, communicates OUSD 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 12 AUs:

- Office of the Chief Financial Officer (OCFO)
- Component and Acquisition Executive (CAE)
- Development and Business Center (DBC)
- Chief of Staff (DDC)
- Inspector General (IG)
- Joint Force Headquarters-Department of Defense Information Network (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)

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 the 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 AU documented its key processes and risk on the **Risk Assessment Template, Illustration 1**. 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.

Illustration 1: Assessable Unit Manager (AUM) Risk Assessment Template (Excerpt)

National Defense Strategic Goal	National Defense Business Operations Plan	Risk Description
Strategic Goal 3: Reform the Department's Business Practices for Greater Performance and Affordability	3.3: Undergo an audit, and improve the quality of budgetary and financial information that is most valuable in managing the DoD	Ineffective processes and controls to validate the location, quantity and value of capital assets puts the Agency at risk of not meeting the objective of providing cost accounting capabilities needed to reliably account for and report on the full cost of its equipment.
Strategic Goal 3: Reform the Department's Business Practices for Greater Performance and Affordability	3.3: Undergo an audit, and improve the quality of budgetary and financial information that is most valuable in managing the DoD	Competing priorities and insufficient FTEs hinder our ability to sustain auditability. DISA continues to analyze the impacts of accounting data from a September 2018 implemented financial accounting system.
Strategic Goal 3: Reform the Department's Business Practices for Greater Performance and Affordability	3.3: Undergo an audit, and improve the quality of budgetary and financial information that is most valuable in managing the DoD	All requirements are not communicated and are therefore not in included in the POM.
Strategic Goal 3: Reform the Department's Business Practices for Greater Performance and Affordability	3.3: Undergo an audit, and improve the quality of budgetary and financial information that is most valuable in managing the DoD	Programs would not be resourced and compliant with the Department of Defense (DoD) Chief Information Officer (CIO) Capability Programming Guidance (CPG) and/or aligned to the DISA's strategic priorities
Strategic Goal 3: Reform the Department's Business Practices for Greater Performance and Affordability	3.3: Undergo an audit, and improve the quality of budgetary and financial information that is most valuable in managing the DoD	Allocation of resources may not balance to Fiscal Guidance (FG)

Developing the Test Plan/Executing the Test

Each AU completed a plan to test the controls in place for each process identified to be tested. The development of the plan, shown in Illustration 2, includes consideration of the nature, extent (including sampling technique), and timing of the execution of the controls tested. Additionally, the risk magnitude (high, medium, or low), objective type, risk type, risk response, and tolerance rate are also identified. The test method (or type) is identified within the plan.

Illustration 2: Plan Development

Agency:	DISA									
AU:			Org:			Dcode(s):				
Process Name:			Preparer Name:			Preparer Phone:				
Narrative Reference:			Objective Type:			Risk Type:		Risk Response:		
Control #	Internal Control Currently In Place (Control Objective)	Control Criteria	Control Type	Control Frequency	Risk (Description)	Assigned Risk (Risk Magnitude)	Tolerance Rate	Test Plan (Description)	Test Type	Frequency of Test

This documentation format enables the AUM to execute testing and provide the results and an abbreviated analysis, shown in **Illustration 3** below.

Illustration 3: Test Results

Agency:	DISA												
AU:			Org:			Dcode(s):							
Process Name:			Preparer Name:			Preparer Phone:							
Narrative Reference:			Objective Type:			Risk Type:		Risk Response:					
Scope	Date Tested	Population	Sample Size	Summary of Test Results	Location of Testing Documentation	# of Exceptions	Exception %	Pass/Fail	Was Control Effective?	Significant Deficiency?	Material Weakness?	Elevate Material Weakness?	New Control Risk Level?

Internal Controls Over Reporting – Operations

Mandatory testing is required for all organizations. An AUM in coordination with senior management, identify the functions performed within their area, in addition to the required testing areas of DTS, time and attendance, and PP&E, to identify the level of process documentation available and determine the associated risk of those functions. In addition, Government Purchase Card and Records Management is tested by process owners and the results of these tests are reported in each respective area's letters of assurance.

Internal Controls Over Reporting - Financial Systems

The implementation of Enterprise Resource Planning (ERP) approved systems as of FY 2019 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 Nov. 15 each year. DISA has not reported anti-deficiency violations in more than a decade, and it continues to demonstrate compliance with laws and regulations.

DISA's core financial management systems routinely provide reliable and timely information for managing day-to-day operations, as well as providing information used to prepare financial statements and maintain effective internal controls. These factors are key indicators of FFMIA compliance.

Additionally, DISA provides application hosting services for the department's service providers (Defense Finance and Accounting Service; Defense Logistics Agency; Defense Contract Management Agency; Defense Human Resource Activity (DHRA); military services, and other defense organizations). As a result, DISA is responsible for most of the information technology (IT) general controls over the computing environment in which many financial, personnel, and logistics applications reside. In order for service providers and components to rely on automated controls and documentation within these applications, controls must be appropriately and effectively designed. In FY 2021, 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 Hosting Services. This was the second year in a row DISA received an unmodified opinion for these 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:

Figure 13-Areas of Testing

General Fund	Working Capital Fund	Other
Data Quality Plan	CS Trial Balance Rollover Testing	Active Users
Dormant Reviews*	TSEAS Trial Balance Rollover Verification	Departed Users
Year End Obligations	TSEAS Revenue	Security Awareness Training
Trial Balance Rollover Verification	TSEAS Expenditure	Separation of Duties
Eliminations (Trading Partner)		PP&E Additions
Non-DISA Site Testing*		PP&E Disposals
GF Revenue		
GF Expenditure		
CARES Act Testing*		

*Note: *Exceptions of non-compliance. The details of these internal control reviews and the supporting documentation are kept on file for reference.*

Financial Improvement and Audit Readiness (FIAR) led department-wide discussions regarding SSAE 18s and the impact to component financial statements. DISA identified more than 240 Complementary User Entity Controls (CUECs) that had an impact on our financial statements. In addition to our continued participation in Service Provider CUEC discussions, at the time of the statement of assurance assessment, DISA is completing the process of reviewing more than 240 identified CUECs to determine our level of risk and identified control descriptions and control attributes for each. For those CUECs determined to be common across all the identified systems, testing was conducted for areas of high risk.

The following list provides a summary of DISA's approach to the FY 2021 internal control evaluation:

Summary of Management's Approach to Internal Control Evaluation

Reporting Entity/Component Name: Defense Information Systems Agency

Summary of Component Mission: To conduct Department of Defense Information Network (DODIN) operations for the joint warfighter to enable lethality across all warfighting domains in defense of our nation.

List of all Component Organizations:

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

- Workforce Services and Development Directorate (WSD)

List of all Component material AUs related to ICOR

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

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

In addition to the Federal Managers Financial Integrity Act (FMFIA), DISA reports its compliance with the FFMIA. FFMIA requires an assessment of adherence to financial management system requirements, accounting standards, and U.S. Standard General Ledger transaction level reporting. For FY 2021, DISA is reporting overall substantial compliance. The following is a comprehensive list of laws and regulations that were assessed for compliance by DISA WCF in context of the FY 2021 audit.

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	No
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-Overall Evaluation of a System of Internal Control

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

Acronym	Laws and 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

Acronym	Laws and Regulations (Supplement Number)
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
PIIA of 2019	Payment Integrity Information Act of 2019 (PIIA); OMB Memorandum M-18-20/OMB Circular A-123, Appendix C, June 2018, modified March 5, 2021

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

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))
DEPUTY CHIEF FINANCIAL OFFICER (DFCO)

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2021

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 Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," and the Green Book, Government Accountability Office (GAO) GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of internal controls around our Security Assistance Accounts (SAA) activities leveraged by established General Fund processes. Based on the results of the assessment, DISA can provide reasonable assurance, except for two self-reported Significant Deficiencies (SDs) (Communications Service Authorizations and Records Management) in FY 2021, reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations and compliance are operating effectively as of Sept. 30, 2021. In FY 2021, there were six categories of material weaknesses (MWs) with the associated Notices of Findings and Recommendations (NFRs): Accounts Receivable/Revenue (3); Accounts Payable/Expense (11); Budgetary Resources (8); Fund Balance with Treasury (12); Financial Reporting (3); and Internal Controls (3). Based upon the results of the assessment, DISA is unable to provide assurance that internal controls over reporting are operating effectively as of Sept. 30, 2021.

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 *"Internal Control Evaluation (Appendix C)"* section provides specific information on how DISA conducted this assessment. This internal review also included an evaluation of the internal controls around our SAA activities. Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of Sept. 30, 2021.

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 *"Internal Control Evaluation (Appendix C)"* section provides specific information on how DISA conducted this assessment. This assessment did not include an evaluation of the internal controls around our SAA activities because the financial reporting function is not yet in place for SAA for DISA as an implementing agency; however, related to SAA, DISA reported one self-reported MW (disbursement data used as receipt of services) in FY 2020, and that has not been remedied in FY 2021. In FY 2021, DISA reported one self-identified SD (Government Property in Possession of Contractors) and one self-identified MW (improper breakout of General Fund federal/non-federal undistributed balances). There were six categories of MWs with the associated NFRs: Accounts Receivable/Revenue (3); Accounts Payable/Expense (11); Budgetary Resources (8); Fund Balance with Treasury (12); Financial Reporting

(3); and Internal Controls (3). Based on the results of the assessment, DISA is unable to provide assurance that internal controls over reporting (including internal and external reporting as of Sept. 30, 2021), and compliance are operating effectively as of Sept. 30, 2021. Details are in the notifications of findings and recommendations database and available to interested parties.

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 *"Internal Control Evaluation" (Appendix C)* section provides specific information on how DISA conducted this assessment. This internal review included an evaluation of the internal controls around our SAA activities leveraging DISA's financial management systems structure. 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; Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D, as of Sept. 30, 2021.

DISA has assessed entity-level controls, including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Act of 2019, and GAO Fraud Risk Management Framework. This internal review included an evaluation of the internal controls for SAA activities encompassing DISA's overall fraud controls structure. Based on the results of the assessment, DISA can provide reasonable assurance that entity-level controls, including fraud controls, are operating effectively as of Sept. 30, 2021.

DISA is hereby reporting that no Antideficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this statement of assurance for FY 2021, my point of contact is Mr. Richard (Greg) Swonger who can be reached at richard.g.swonger.civ@mail.mil or (614) 692-8596.

ROBERT J. SKINNER
Lieutenant General, USAF
Director

Attachments:
As stated

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 enable enhanced decision-making.

During FY 2021, DISA continued to operate and enhance the Financial Accounting and Management Information System (FAMIS), which supports the full breadth of DISA's WCF lines of business. In addition to the accounting system, 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 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 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 worldwide 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 fee, 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 the Computing Ecosystem to support computing services for mission partners worldwide. 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 prioritizes 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. These optimization efforts are projected to yield a savings of $695 million over 10 years.

6. Limitations of the Financial Statements

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

The statements should be read with the realization that they are for a defense agency of the U.S. government, a sovereign entity.

Defense Information Systems Agency
General Fund
Principal Statements
Fourth Quarter of Fiscal Year 2021, ending Sept. 30, 2021

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2021 and 2020
($ in thousands)

Figure 16-Balance Sheet

	2021 Consolidated	2020 Consolidated
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 2,702,093	$ 3,136,735
Accounts receivable, Net (Note 6)	49,998	49,966
Other Assets	-	1,075
Total intragovernmental	2,752,091	3,187,776
Other than intragovernmental:		
Accounts receivable, net (Note 6)	1,345	577
General property, plant and equipment, net (Note 10)	459,397	406,651
Advances and Prepayments-Other assets (Note 12)	20	22
Total other than intragovernmental	460,762	407,250
Total assets	$ 3,212,853	$ 3,595,026
Stewardship PP&E (Note 11)		
Liabilities (Note 13)		
Intragovernmental:		
Accounts payable (Note 17)	$ 359,841	$ 444,295
Other Liabilities (Notes 15 and 17)	5,741	5,362
Total intragovernmental	365,582	449,657
Other than intragovernmental:		
Accounts payable	1,007	(110,299)
Federal employee and veteran benefits payable (Note 15)	55,760	55,212
Other Liabilities (Notes 17, 18 and 19)	21,773	22,607
Total other than intragovernmental	78,540	(32,480)
Total liabilities	$ 444,122	$ 417,177
Commitments and contingencies (Note 19)		
Net Position:		
Unexpended Appropriations-Other Funds	$ 2,323,840	$ 2,791,350
Cumulative results of Operations-Other Funds	444,891	386,499
Total net position	2,768,731	3,177,849
Total liabilities and net position	$ 3,212,853	$ 3,595,026

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

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2022 and 2021
($ in thousands)

Figure 17-Statement of Net Cost

Gross Program Costs (Note 21)		2021 Consolidated		2020 Consolidated
Gross Costs	$	4,174,083	$	3,851,576
Less: Earned Revenue		(195,040)		(174,355)
Net Cost of Operations	**$**	**3,979,043**	**$**	**3,677,221**
Operations & Maintenance		3,089,015		2,802,383
Procurement		539,047		652,826
Research, Development Test & Evaluation		543,263		398,010
Military Construction		2,758		(1,643)
Less: earned revenue		(195,040)		(174,355)
Net other program costs:	**$**	**3,979,043**	**$**	**3,677,221**

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2022 and 2021
($ in thousands)

Figure 18 -Statement of Changes in Net Position

	2021 Consolidated	2020 Consolidated
Unexpended Appropriations	$ 2,791,350	$ 2,710,920
Appropriations received	3,402,714	3,566,859
Appropriations transferred-in/out	92,947	224,578
Other adjustments (+/-)	(62,048)	(24,376)
Appropriations used	(3,901,123)	(3,686,631)
Change in Unexpended Appropriations (Note 45)	(467,510)	80,430
Total Unexpended Appropriations	2,323,840	2,791,350
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning balances, as adjusted	$ 386,499	$ 729,737
Other adjustments (+/-)	825	(28,690)
Appropriations used	3,901,123	3,686,631
Transfers-in/out without reimbursement	(115,864)	(575,696)
Imputed financing	251,062	251,726
Other	289	12
Net Cost of Operations	3,979,043	3,677,221
Change in Cumulative Results of Operations	58,392	(343,238)
Cumulative Results of Operations: ending	444,891	386,499
Net Position	$ 2,768,731	$ 3,177,849

The accompanying notes are an integral part of these statements.

Defense Information Systems Agency General Fund
As of Sept. 30, 2022 and 2021
($ in thousands)

Figure 19 - Statement of Budgetary Resources

		2021 Combined		2020 Combined
Budgetary Resources				
Unobligated balance from prior year budget authority, net	$	729,158	$	602,735
Appropriations (discretionary and mandatory)		3,491,182		3,789,278
Spending Authority from offsetting collections		197,337		189,792
Total Budgetary Resources	$	4,417,677	$	4,581,805
Status of Budgetary Resources				
New obligations and upward adjustments (total) (Note 28)	$	3,815,262	$	4,161,717
Apportioned, unexpired accounts		289,637		283,265
Unexpired unobligated balance, end of year		289,637		283,265
Expired unobligated balance, end of year		312,778		136,823
Unobligated balance, end of year (total)		602,415		420,088
Total Budgetary Resources	$	4,417,677	$	4,581,805
Outlays, Net				
Outlays, net (total) (discretionary and mandatory)		3,868,601	$	3,560,326
Agency Outlays, net (discretionary and mandatory	$	3,868,601	$	3,560,326

The accompanying notes are an integral part of these statements.

Defense Information Systems Agency
General Fund
Notes to the Principal Statements
Fourth Quarter of Fiscal Year 2021, ending Sept. 30, 2021

Defense Information Systems Agency
General Fund
Notes to the Principal Statements
Fourth Quarter of Fiscal Year 2021, ending Sept. 30, 2021

Note 1. Summary of Significant Accounting Policies

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

Accounting Principles

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

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

The DoD is evaluating the effects of adopting the below pronouncements to the Federal

Accounting Standards Advisory Board (FASAB) Handbook of Accounting Standards and Other Pronouncements, as Amended.

1) *SFFAS 49, Public-Private Partnerships:* Issued on April 27, 2016; Effective for periods after Sept. 30, 2018. Early implementation was not permitted.

The Department identified Military Housing Privatization Initiative (MHPI) agreements as public-private partnerships requiring disclosure. Accordingly, in concurrence with the considerations of SFFAS 47, Reporting Entity, and due to the complexity of the MHPI agreements, the Department is performing research and analysis to evaluate each individual operating agreement in accordance with the qualifications for ownership interest, and the conditions of the control inclusion principles. This assessment will support the determination of appropriate reporting requirements, and the materiality of any potential financial adjustments.

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

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

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

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

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

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

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

DISA GF 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. 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.

Fund Balance with Treasury

The Fund Balance with Treasury (FBWT) represents the aggregate amount of DISA GF available budget spending authority available to pay current liabilities and finance future authorized purchases. The agency General Fund 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 DOD's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the Treasury Department on checks issued, electronic fund transfers, interagency transfers, and deposits.

The Fund Balance with Treasury is an asset of a component entity and a liability of the Treasury general fund. The amounts represent commitments by the government to provide resources for programs, but they do not represent net assets to the government, as a whole.

In addition, DFAS reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury Department records these transactions to the applicable fund balance with Treasury.

The Defense Information Systems Agency GF does not report deposit fund balances on its financial statements.

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

Revenue and Other Financing Sources

As a component of the government-wide reporting entity, DISA GF is subject to the federal budget process, which involves appropriations that are provided annually and on a permanent basis. The financial transactions resulting from the budget process are generally the same transactions reflected in agency and the government-wide financial reports.

The agency's GF 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, the Treasury Department 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 Defense Information Systems Agency receives congressional appropriations and funding as general and working capital (revolving) and uses these appropriations and funds to execute its missions and subsequently report on resource usage.

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

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

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

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

In accordance with SFFAS Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," DISA recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. Typically, DISA nonexchange revenue is made up 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.

Changes in Entity or Financial Reporting

The Defense Information Systems Agency GF did not have changes in entity or financial reporting for FY 2021.

Classified Activities

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Fiduciary Activities

The Defense Information System Agency GF does not have fiduciary activities.

Parent-Child Reporting

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

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

Pension, ORB, and OPEB Reporting

The Defense Information Systems Agency GF does not administer pensions, other reportable benefits (ORB), or other post-employment benefits (OPEB) and does not report gains or losses on retirement benefits.

The DoD applies *SFFAS 33*, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, in selecting the discount rate and valuation date used in estimating military retirement benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the DoD Statement of Net Cost.

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

Most DoD employees hired prior to Jan. 1, 1984, participate in the Civil Service Retirement System (CSRS). The majority of DoD employees hired Dec. 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired between Jan. 1, 1984 and Dec. 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 DoD automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Defense Department also contributes the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these ORBs for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for 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 DoD is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

Statement of Social Insurance (SOSI) Reporting

The Defense Information Systems Agency General Fund does not participate in social insurance programs and thus does not prepare a Statement of Social Insurance.

Note 2. Non-Entity Assets

Total entity assets for DISA GF are composed of FBWT, accounts receivable, general property, plant and equipment, and advances and prepayments-other assets.

Figure 20 - Non-Entity Assets

(thousands)

	2021	2020
1. Intragovernmental Assets		
A. Fund Balance with Treasury	0.00	0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Intragovernmental Assets	0.00	0.00
2. Non-Federal Assets		
A. Cash and Other Monetary Assets	0.00	0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Non-Federal Assets	0.00	0.00
3. Total Non-Entity Assets	0.00	0.00
4. Total Entity Assets	$ 3,212,853	$ 3,595,026
5. Total Assets	$ 3,212,853	$ 3,595,026

Note 3. Fund Balance with Treasury

COVID-19 Impacts:
Please see Note 42

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

The status of Fund Balance with Treasury (FBWT), as presented in Table 3, reflects the reconciliation between the budgetary resources supporting the FBWT (largely consisting of unobligated balance and obligated balance not yet disbursed) and those resources provided by other means. The total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

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

Obligated balance not yet disbursed represents funds obligated for goods and services but not paid.

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

Non-FBWT budgetary accounts reduces budgetary resources. The DISA GF Non-FBWT budgetary accounts are primarily composed of unfilled orders without advance from customers and receivables.

Treasury Department securities provide DISA GF with budgetary authority and enables DISA GF to access funds to make future benefit payments or other expenditures. DISA GF must redeem these securities before they become part of the FBWT.

Contract authority and reimbursable authority (spending authority from anticipated collections) does not increase the FBWT when initially posted but does provide budgetary resources. The Fund Balance with Treasury increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

Unfilled customer orders without advance and reimbursements and other income earned - receivable provide budgetary resources when recorded. The FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

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

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

Figure 21 - Status of Fund Balance with Treasury

(thousands)

	2021	2020
1. Unobligated Balance:		
A. Available	$ 289,636	$ 283,266
B. Unavailable	312,779	136,823
Total Unobligated Balance	$ 602,415	$ 420,089
2. Obligated Balance not yet Disbursed	$ 2,262,596	$ 2,900,045
3. Non-Budgetary FBWT:		
A. Clearing accounts	$ 0	$ 0
B. Deposit funds	0	0
C. Non-entity and other	0	0
Total Non-Budgetary FBWT	$ 0	$ 0
Total Status of Fund Balance with Treasury	$ 2,865,011	$ 3,320,134
4. Non-FBWT Budgetary Accounts:		
A. Investments - Treasury Securities	$ 0	$ 0
B. Unfilled Customer Orders without Advance	(110,646)	(127,758)
C. Contract Authority	0	0
D. Borrowing Authority	0	0
E. Receivables and Other	(52,272)	(55,641)
Total Non-FBWT Budgetary Accounts	$ (162,918)	$ (183,399)
5. Total FBWT	$ 2,702,093	$ 3,136,735

Note 6. Accounts Receivable, Net

COVID-19 Impacts:
Please see Note 42

Accounts receivable represent DISA GF's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700. Allowances for uncollectible accounts due from the public are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

The Federal Accounting Standards Advisory Board (FASAB) issued Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For FY 2021, the intragovernmental allowance was calculated using the same methodology as for public receivables. The agency's GF developed its policy, related to the allowance for uncollectible accounts for intragovernmental receivables.

Figure 22 - Accounts Receivable, Net

(thousands)

DISA GF 2021	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 49,998	$ 0	$ 49,998
2. Non-Federal Receivables (From the Public)	1,345	0	1,345
3. Total Accounts Receivable	$ 51,343	$ 0	$ 51,343

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

Note 10. General Property, Plant and Equipment, Net

COVID-19 Impacts:
Please see Note 42

The DISA GF General PP&E comprises leasehold improvements, equipment, and software with a net book value (NBV) of $459.4 million.

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

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

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

Figure 23-General Property, Plant, and Equipment, Net

(thousands)

DISA GF	**2021**	**2020**
General PP&E, Net beginning of year	$ 406,651	$ 724,070
Capitalized Acquisitions	247,367	382,751
Dispositions *	(18,554)	0
Transfers in/(out) without reimbursement	0	0
Revaluations (+/-)	(108,741)	(597,073)
Depreciation Expense	(67,142)	(103,097)
Donations	0	0
Other	(184)	0
General PP&E, Net end of year	$ 459,397	$ 406,651

** Dispositions and revaluations not presented separately for Q4 FY2020*

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 24 - Major General PP&E Asset Classes

(thousands)

DISA GF 2021	**Depreciation/ Amortization Method**	**Service Life**	**Acquisition Value**	**(Accumulation Depreciation/ Amortization)**	**Net Book Value**
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0	N/A	$ 0
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45*	10,014	(745)	9,269
C. Leasehold Improvements	S/L	Lease term	79,761	(48,956)	30,805
D. Software	S/L	2-5 or 10	49,825	(18,528)	31,297
E. General Equipment	S/L	Various	481,231	(330,499)	150,732
F. Assets Under Capital Lease	S/L	Lease term	0	0	0
G. Construction-in-Progress	N/A	N/A	237,294	N/A	237,294
H. Other	N/A	N/A	0	0	0
I Total General PP&E			$ 858,125	$ (398,728)	$ 459,397

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

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 12. Other Assets

COVID-19 Impacts:
Please see Note 42

The Defense Information Systems Agency GF's other assets consists of minimal amounts for advances and prepayments. Intragovernmental advances and prepayments decreased almost $1.1 million because of an adjustment to reconcile trading partner data. In the current fiscal year, total other assets are shown as zero due to mapping changes presented on the balance sheet.

Advances and prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as outstanding contract financing payments.

Figure 25 - Other Assets

(thousands)

		2021		2020
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	0	$	1,075
B. Other Assets		0		0
C. Total Intragovernmental Other Assets	$	0	$	1,075
2. Non-Federal Other Assets				
A. Outstanding Contract Financing Payments	$	0	$	0
B. Advances and Prepayments		20		22
C. Other Assets (With the Public)		0		0
D. Total Non-Federal Other Assets	$	20	$	22
E. Less: "Outstanding Contract Finance Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	$	(20)	$	(22)
F. Net Other than Intragovernmental	$	0	$	0
3. Total Other Assets	$	0	$	1,075

Note 13. Liabilities Not Covered by Budgetary Resources

COVID-19 Impacts:
Please see Note 42

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, the Treasury Department will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Intragovernmental Liabilities “Other” consists of $965 thousand of unfunded Federal Employees’ Compensation Act liabilities related to bills from the U.S. Department of Labor (DOL) that are not funded until the billings are received. Intragovernmental liabilities “accounts payable” consists of $6 thousand to record a judgement fund case due for reimbursement. Refer to Note 19, *Commitments and Contingencies.*

Non-federal liabilities “Federal Employee and Veterans Benefits” consists of $44.3 million in unfunded annual leave liability reflecting earned amounts of annual leave to be paid from future appropriations, and $4.5 million in various employee actuarial FECA liabilities not due and payable during the current fiscal year. Refer to Note 15, *Federal Employee and Veteran Benefits Payable*, for additional details.

Figure 26 - Liabilities Not Covered by Budgetary Resources

(thousands)

	2021	2020
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 6	$ 0
B. Debt	0	0
C. Other	965	1,154
D. Total Intragovernmental Liabilities	$ 971	$ 1,154
2. Other than Intragovernmental Liabilities		
A. Accounts Payable	$ 0	$ 0
B. Federal Employee and Veterans Benefits	48,730	48,693
C. Environmental and Disposal Liabilities	0	0
D. Benefits Due and Payable	0	0
E. Other Liabilities	0	0
F. Total Other than Intragovernmental Liabilities	$ 48,730	$ 48,693
3. Total Liabilities Not Covered by Budgetary Resources	$ 49,701	$ 49,847
4. Total Liabilities Covered by Budgetary Resources	$ 394,421	$ 367,330
5. Total Liabilities Not Requiring Budgetary Resources	$ 0	$ 0
6. Total Liabilities	$ 444,122	$ 417,177

Note 15. Federal Employee and Veteran Benefits Payable

COVID-19 Impacts:
Please see Note 42

Actuarial Cost Method Used and Assumptions:

The 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 2021 methodology remained the same but included adjustments to normalize the levels of payments in chargeback years 2021 and 2020 because payment levels in these years were not representative of what could be expected to occur absent the pandemic.

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 cost of living allowances) and medical inflation factors (consumer price index medical or CPI-Ms) were applied to the calculation of projected future benefits.

The Department of Labor 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 2021 and FY 2020 methodologies for averaging the COLA rates used OMB-provided rates; the FY 2020 methodology also considered updated information provided by program staff. The FY 2021 and FY 2020 methodologies for averaging the CPI-M rates used OMB-provided rates and information obtained from the Bureau of Labor Statistics public releases for CPI. The actual rates for these factors for the charge back year (CBY) 2021 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 27 - Compensation COLAs and CPI-Ms

CBY	COLA	CPI-M
2021	N/A	N/A
2022	2.11%	2.74%
2023	2.48%	3.15%
2024	2.55%	3.56%
2025	2.62%	3.49%
2026	2.68%	3.79%

[and thereafter]

The Department of Labor selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the 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 2021 and FY 2020, respectively. Interest rate assumptions utilized for FY 2021 discounting were as follows:

Discount Rates
For wage benefits:
2.231% in year 1 and years thereafter;
For medical benefits:
2.060% 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 was 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 American Rescue Plan Act, P.L. 117-2, section 4016, "Eligibility for Workers' Compensation Benefits for Federal Employees Diagnosed with COVID-19," mandated that the FECA Special Benefits Fund assume an **unreimbursed** liability (i.e., a liability that is not chargeable to the agencies) for approved claims of certain covered employees for injuries proximately caused by exposure to the novel coronavirus that causes COVID-19 (or another coronavirus declared to be a pandemic by public health authorities) while performing official duties during the covered exposure period. Pursuant to section 4016, these claims must be accepted on or after March 12, 2021 and through Sept. 30, 2030 and cover benefits for disability compensation and medical services and survivor benefits. Accordingly, section 4016 future benefits are properly omitted from the table of Estimates of Total FECA Future Liabilities as of Sept. 30, 2021.

Expense Components

For FY 2021, the only expense component pertaining to other actuarial benefits for DISA GF is the FECA expense. The DOL provides the expense data to DISA. The staffing ratio data from the DISA headquarters determines the allocation of the expense to DISA GF and DISA WCF.

The DOL provided an estimate for DISA's future workers' compensation benefits of $9.2 million in total, of which $4.5 million was distributed to DISA GF based upon staffing ratios. DISA made the distribution using its normal methodology of apportioning FECA liability to GF and WCF based upon relative staffing levels. DISA used the same apportionment methodology in prior years.

Changes in Actuarial Liability

Fluctuations in the total liability amount charged to the DISA by DOL will cause changes in FECA liability. The other actuarial benefits, FECA liability for DISA GF decreased almost $2.5 million 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 28 – Federal Employee and Veteran Benefits Payable

(thousands)

DISA GF 2021	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 4,460	$ 0	$ 4,460
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	51,300	(7,030)	44,270
E. Total Other Benefits	$ 55,760	$ (7,030)	$ 48,730
3. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 55,760	$ (7,030)	$ 48,730
4. Other benefit-related payables included in Intragovernmental Accounts Payable on the Balance Sheet	$ 0	$ 0	$ 0
5. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 5,741	$ (4,776)	$ 965
6. Total Federal Employee and Veteran Benefits Payable	$ 61,501	$ (11,806)	$ 49,695

DISA GF 2020	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	$ 0	$ 0	$ 0
2. Other Benefits			
A. FECA	$ 4,705	$ 0	$ 4,705
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	50,507	(6,519)	43,988
E. Total Other Benefits	$ 55,212	$ (6,519)	$ 48,693
3. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 55,212	$ (6,519)	$ 48,693
4. Other benefit-related payables included in Intragovernmental Accounts Payable on the Balance Sheet	$ 0	$ 0	$ 0
5. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 5,362	$ (4,208)	$ 1,154
6. Total Federal Employee and Veteran Benefits Payable	$ 60,574	$ (10,727)	$ 49,847

Note 17. Other Liabilities

COVID-19 Impacts:

Please see Note 42

DISA GF Intragovernmental Other Liabilities consist of:

- Federal Employee and Veterans Benefits - $5.7 million: This liability represents the employer portion of payroll taxes and employer contributions for health benefits, life insurance, and retirement, as well as unfunded FECA liability.

DISA GF Other Than Intragovernmental Other Liabilities consist of:

- Accrued Funded Payroll and Benefits - $15.8 million: DISA GF reports as other liabilities, the unpaid portion of accrued funded civilian payroll and employee's annual leave as it is earned, and subsequently reduces the leave liability when it is used.

- Advances from others - $6.0 million: This liability represents liabilities for collections received to cover future expenses or acquisition of assets DISA GF incurs or acquires on behalf of another organization. Further, is represents the remaining amount of customer advance billings. These customer advances will be liquidated in future periods as the result of filling customer orders/earned revenue based on the completion of contract task orders and other direct costs being applied to the specific customer advance accounts under major range and test facility base guidelines, polices, and regulation.

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

Figure 29 - Other Liabilities

(thousands)

DISA GF 2021	Current Liability	Non-Current Liability	Total
Intragovernmental			
Other Liabilities reported on Note 15, Federal Employee and Veterans Benefits Payable	$ 5,741	$ 0	$ 5,741
Total Intragovernmental	$ 5,741	$ 0	$ 5,741
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	$ 15,756	$ 0	$ 15,756
Advances from Others and Deferred Revenue	6,017	0	6,017
Total Other than Intragovernmental	$ 21,773	$ 0	$ 21,773
Total Other Liabilities	$ 27,514	$ 0	$ 27,514

DISA GF 2020	Current Liability	Non-Current Liability	Total
Intragovernmental			
Other Liabilities reported on Note 15, Federal Employee and Veterans Benefits Payable	$ 5,362	$ 0	$ 5,362
Total Intragovernmental	$ 5,362	$ 0-	$ 5,362
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	$ 15,293	$ 0	$ 15,293
Advances from Others and Deferred Revenue	7,315	0	7,315
Total Other than Intragovernmental	$ 22,607	$ 0	$ 22,607
Total Other Liabilities	$ 27,969	$ 0	$ 27,969

Note 18. Leases

Assets Under Capital Lease:

The Defense Information Systems Agency GF does not have any Assets Under Capital Lease.

Future Payments Due for Leases:

The GF has non-cancelable operating leases for office equipment, vehicles, land, buildings, and commercial space. The agency does not receive copies of leases but obtains individual occupancy agreements and is billed a cost based on the space DISA is occupying. The largest portion of these costs are reimbursements to the Pentagon Reservation Maintenance Fund. Occupancy agreements are also held with Washington Headquarters Service or the General Services Administration based upon the space

DISA GF is occupying. Prior year tables for future minimum lease payments are not presented. Future lease payments due as of Sept. 30, 2021, were as follows:

Figure 30-Future Payments Due for Non-Cancelable Operating Leases

(thousands)

DISA GF 2021	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2022	47,800	716	492	49,008
2023	46,368	0	507	46,875
2024	42,147	0	522	42,669
2025	43,411	0	269	43,680
2026	44,714	0	0	44,714
After 5 Years	109,394	0	0	109,394
Total Federal Future Lease Payments	$ 333,834	$ 716	$ 1,790	$ 336,340
2. Non-Federal				
Fiscal Year				
2022	0	214	0	214
2023	0	0	0	0
2024	0	0	0	0
2025	0	0	0	0
2026	0	0	0	0
After 5 Years	0	0	0	0
Total Non-Federal Future Lease Payments	$ 0	$ 214	$ 0	$ 214
3. Total Future Lease Payments	$ 333,834	$ 930	$ 1,790	$ 336,554

Note 19. Commitments and Contingencies

COVID-19 Impacts:
Please see Note 42

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

In the fourth quarter of FY 2021, $6 thousand was recorded to other liabilities without related budgetary obligations - judgment fund to record a case under the CDA due for reimbursement.

Note Disclosures Related to the Statement of Net Cost

Note 21. Suborganization Program Costs

COVID-19 Impacts:
Please see Note 42

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

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

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

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

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

Figure 31-Costs and Exchange Revenue by Major Program

(thousands)

	2021	2020
Operations, Readiness & Support		
Gross Cost	3,089,016	2,802,382
Less: Earned Revenue	(160,585)	(132,085)
Net Program Costs	$ 2,928,431	$ 2,670,297
Procurement		
Gross Cost	539,047	652,826
Less: Earned Revenue	(3,536)	(6,477)
Net Program Costs	$ 535,511	$ 646,349
Research, Development, Test & Evaluation		
Gross Cost	543,262	398,011
Less: Earned Revenue	(30,919)	(35,793)
Net Program Costs	$ 512,343	$ 362,218
Family Housing & Military Construction		
Gross Cost	2,758	(1,643)
Less: Earned Revenue	0	0
Net Program Costs	$ 2,758	$ (1,643)
Consolidated		
Gross Cost	4,174,083	3,851,576
Less: Earned Revenue	(195,040)	(174,355)
Total Net Cost	**$ 3,979,043**	**$ 3,677,221**

Note Disclosures Related to the Statement of Budgetary Resources

Note 28. Undelivered Orders at the End of Period

COVID-19 Impacts:
Please see Note 42

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

As of Sept. 30, 2021, DISA GF incurred $3.8 billion in obligations, all of which are reimbursable and none of which are exempt from apportionment.

The total unobligated balance available as of Sept. 30, 2021 is $602.4 million and represents the cumulative amount of budgetary authority that has been set aside to cover future obligations for the current period.

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

As of Sept. 30, 2021, DISA GF's net amount of budgetary resources obligated for undelivered orders is $1.9 billion.

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

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

Figure 32-Budgetary Resources Obligated for Undelivered Orders at the End of the Period

(thousands)

		2021		2020
1. Intragovernmental				
A. Unpaid		1,777,119		2,412,358
B. Prepaid/Advanced		0		0
C. Total Intragovernmental	$	1,777,119	$	2,412,358
2. Non-Federal				
A. Unpaid		94,799		121,994
B. Prepaid/Advanced		20		1,097
C. Total Non-Federal	$	94,819	$	123,091
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	1,871,938	$	2,535,449

Note Disclosures Not Pertaining to a Specific Statement

Note 38. Reconciliation of Net Cost to Net Outlays

The reconciliation of net cost to net outlays demonstrates the relationship between DISA GF's net cost of operations, reported on an accrual basis on the Statement of Net Cost, and net outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of DISA GF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by DISA GF. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

The FY 2020 reconciliation was modified to conform to the FY 2021 presentation.

The reconciling difference of $80 thousand is related to standard general ledger 721000.9000 which is included in SNC net cost of operations, but not in the SBR net outlays. The fluctuation is due to adjusting entries made for equipment no longer in use and sent to the DLA.

Figure 33-Reconciliation to the Net Cost of Operations to Net Outlays

(thousand)

DISA GF 2021	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	3,007,641	971,402	3,979,043
Components of Net Cost That Are Not Part of Net Outlays:			
2. General Property, Plant, and Equipment Depreciation Expense	0	52,745	52,745
3. General Property, Plant, and Equipment Disposal & Revaluation	0	0	0
4. Year-end Credit Reform Subsidy Re-estimates	0	0	0
5. Increase/(Decrease) in Assets:			
a. Accounts and Taxes Receivable, Net	(3,369)	768	(2,601)
b. Loans Receivable, Net	0	0	0
c. Other Assets	(1,075)	(2)	(1,077)
6. Decrease/(Increase) in Liabilities:	0	0	
a. Accounts Payable	87,477	(111,307)	(23,830)
b. Loans Guarantee Liability	0	0	0
c. Insurance and Guarantee Program Liabilities	0	0	0
d. Environmental and Disposal Liabilities	0	0	0
e. Benefits Due and Payable	0	0	0
f. Federal Employee and Veteran Benefits Payable	0	(548)	(548)
g. Other Liabilities	0	835	835
7. Other Financing Sources:			
a. Imputed Cost	(251,062)	0	(251,062)
b. Donated Revenue	0	0	0
8. Total Components of Net Cost Not Part of Net Outlays	(168,029)	(57,509)	(225,538)
Components of Net Outlays Not Part of Net Cost			
9. Acquisition of Capital Assets	0	0	0
10. Investments	0	0	0
11. Inventories and Related Property	0	0	0
12. Debt	0	0	0
13. Other	0	0	0
14. Total Components of Net Outlays Not Part of Net Cost	0	0	0
Miscellaneous Reconciling Items			
15. Eliminations between Financing and Non-Financing	0	0	0
16. Distributed Offsetting Receipts	0	0	0
17. Other	115,384	(208)	115,176
18. Total Other Reconciling Items	115,384	(208)	115,176
19. Total Net Outlays	2,954,996	913,685	3,868,681

20. Agency Outlays, Net (Statement of Budgetary Resources) 3,868,601

21. Unreconciled Difference 80

Note 42. COVID-19 Activity

During FY 2020, the 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. The 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 regarding CARES Act funding to mitigate the increased risk of fraud, waste, and abuse related to CARES funding. The DISA has initiated a structure to identify and track COVID-19 transactional data and will be incorporating COVID-19 testing in its Risk Management and Internal Control program.

The DISA GF notes impacted by COVID-19 activities include FBWT, accounts receivable, general PP&E, other assets, liabilities not covered by budgetary resources, federal employee and veteran benefits, other liabilities, general disclosures related to SNC, and disclosures related to the SBR.

The following table provides a summary of COVID-19 funding received for DISA GF, including the obligation status through the fourth quarter of FY 2021:

Original FY 2020 Request	Final Supplemental	Approved Program Released by OCFO	Cumulative Obligations	Cumulative Unobligated Balance*	Cumulative Expenditures	Cumulative Unexpended Balance**	Amount Obligated in Current FY	Amound Expended in Current FY
358,711	182,854	181,096	176,955	4,141	154,829	26,267	(486)	132,184

**** Approved Program, Less: Cumulative Obligations***

***** Approved Program, Less: Cumulative Expenditures***

Note 45. Disclosures Related to the Statement of Changes in Net Position

COVID-19 Impacts:
Please see Note 42

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 2021, changes for DISA GF primarily consists of budgetary financing sources for appropriations received, transferred-in/out, and used.

DISA GF does not have funds from dedicated collections.

The following notes do not apply to DISA GF:

Note 4. Cash and Other Monetary Assets

Note 5. Investments

Note 7. Taxes Receivable, Net

Note 8. Loans Receivable, Net and Loan Guarantee Liabilities

Note 9. Inventory and Related Property, Net

Note 11. Stewardship PP&E

Note 14. Federal Debt and Interest Payable

Note 16. Environmental and Disposal Liabilities

Note 20. Funds from Dedicated Collections

Note 22. Stewardship PP&E Obtained Through Transfer, Donation or Devise

Note 23. Exchange Revenues

Note 24. Inter-Entity Costs

Note 25. Net Adjustments to Unobligated Balance, Brought Forward, Oct. 1

Note 26. Terms of Borrowing Authority Used

Note 27. Available Borrowing/Contract Authority, End of the Period

Note 29. Permanent Indefinite Appropriations

Note 30. Legal Arrangements Affecting the Use of Unobligated Balances

Note 31. Explanation of Differences between the SBR and the Budget of the U.S. Government

Note 32. Contributed Capital

Note 33. Incidental Custodial Collections

Note 34. Custodial Revenues

Note 35. Statement of Social Insurance and Statement of Changes in Social Insurance Amounts

Note 36. Fiduciary Activities

Note 37. Restatements

Note 39. Public-Private Partnerships

Note 40. Disclosure Entities and Related Parties

Note 41. Insurance Programs

Note 43. Subsequent Events

Note 44. Non-Custodial Non-Exchange Revenues

Required Supplementary Information

Deferred Maintenance and Repairs Disclosures

In accordance with FASAB SFFAS 42 and FMR 6B, Chapter 12, paragraph 120301, DISA is to report material amounts of deferred maintenance and repairs (DM&R) as supplementary information on its financial statements. In FY 2021, the DISA GF has deferred maintenance and repairs (DM&R) to report of $22.8 million. DISA GF started FY 2021 with a beginning balance of $16.0 million.

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

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

As of the third quarter of FY 2020, DISA has transferred out all GF real property assets. DISA GF has DM&R related to capitalized general PP&E, non-capitalized or fully depreciated general PP&E. The DISA does not have stewardship PP&E or PP&E for which management does not measure and/or report DM&R. The rationale for excluding any PP&E asset other than if not capitalized, or it is fully depreciated, is the item does not meet the applicable capitalization criteria, is not on the integrated project list, or there are preventative maintenance contracts in place to address maintenance needs in the current year.

There have been changes in identification of DM&R that has occurred since the last fiscal year. In FY 2021, DISA GF has further refined its identification of DM&R and reporting deferred maintenance of $22.8 million for general PP&E. DISA GF will continue to review its process and enhance its identification of deferred maintenance reporting, as needed.

Public, Private, Partnerships, P3 Disclosures

DISA participates in Cooperative Research and Development Agreements (CRADA); however, DISA has no current CRADA arrangement with a duration that exceeds more than 4 years. Per FASAB SFFAS 49, DISA's CRADAs do not meet the disclosure requirements of federal Public-Private Partnerships (P3s) and are excluded agreements.

Subject to Definitional Features Indicative of Risk, Risk-based Characteristics, and Materiality (SFFAS 49, par 15) and for the purposes of this SFFAS 49, federal public-private partnerships (P3s) are risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities. Such arrangements or transactions provide a service or an asset for government and/or public use, where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or transactions.

The Federal Accounting Standards Advisory Board believes that there is a need for disclosure requirements specific to the risks existing in P3s for which there is no current accounting guidance. The FASAB has established decision points to aid preparers specifically the definitional features indicative of risk which are embodied in the proposed definition:

(1) agreements covering a significant portion of the economic life of a project or asset, and/or lasting more than five years,
(2) financing provided in whole or shared in part by the private partner,
(3) conveyance or transfer of real property, personal property, or multi-sector skills and expertise, and
(4) formation of special purpose vehicle (SPVs).

The board (1) realigned the four major features by incorporating them directly into the risk-based characteristics and (2) within the definition, specifically excluding arrangements or transactions which are not more than five years in duration. DISA does not meet the five-year CRADA duration required for disclosure.

In addition, DISA meets the requirement for exclusion in SFFAS 49, A17d, formal and informal arrangements or transactions that do not share risks or rewards and are solely designed to foster goodwill, encourage economic development, promote research and innovation, or coordinate and integrate strategic initiatives. DISA's exposure to risk is minimal and stated in the agreements. For example, government technology is developed by government people with government funding. DISA looks for partners to expand on developed technology and further development or extend advancements to other federal agencies. In public entities, developments can be further commercialized or provided by the government at a discounted rate to allow more access to the development created by DISA. These developments benefit others.

These arrangements are not long term. Reviews have been performed on DISA's CRADA arrangements. DISA has no current CRADA arrangements with the duration to exceed more than four years. Though the Joint Interoperability Test Command (JITC) does have CRADA's on a reimbursable basis, they do not exceed a four-year life. DISA's CRADAs consist of fee-for-service and unified capabilities classifications. According to the FASAB, disclosure requirements do not meet with the P3 definitions as prescribed in SFFAS 49, Appendix B flow chart.

Defense Information Systems Agency
General Fund
CONSOLIDATING BALANCE SHEET INFORMATION
As of Sept. 30, 2021
(thousands)

	O&M	PROC	RDT&E	MILCON	**Combined**	**Intra-Entity Eliminations**	**FY 2021 Consolidated**
ASSETS							
Intragovernmental:							
Fund Balance with Treasury	1,368,681	912,645	370,925	49,842	2,702,093	-	2,702,093
Accounts Receivable	43,304	4,627	4,341	-	52,272	(2,274)	49,998
Other Assets	-	-	-	-	-	-	-
Total Intragovernmental Assets	1,411,985	917,272	375,266	49,842	2,754,366	(2,274)	2,752,091
Other Than Intragovernmental:							
Accounts Receivable, Net	1,126	109	110	-	1,345	-	1,345
General PP&E, Net	15,602	394,068	31,884	17,843	459,397	-	459,397
Advances and Prepayments	20	-	-	-	20	-	20
Total Other Than Intragovernmental Assets	16,748	394,177	31,994	17,843	460,762	-	460,762
TOTAL ASSETS	**1,428,733**	**1,311,449**	**407,260**	**67,685**	**3,215,127**	**(2,274)**	**3,212,853**
LIABILITIES							
Intragovernmental:							
Accounts Payable	254,136	63,659	44,253	68	362,115	(2,274)	359,841
Other Liabilities	5,741	-	-	-	5,741	-	5,741
Total Intragovernmental Liabilities	259,877	63,659	44,253	68	367,856	(2,274)	365,582
Other Than Intragovernmental:							
Accounts Payable	(6,999)	6,952	984	70	1,007	-	1,007
Federal Employee and Veteran Benefits	55,221	-	539	-	55,760	-	55,760
Other Liabilities	17,160	-	4,613	-	21,773	-	21,773
Total Other Than Intragovernmental Liabilities	65,383	6,952	6,136	70	78,540	-	78,540
TOTAL LIABILITIES	**325,259**	**70,611**	**50,389**	**138**	**446,396**	**(2,274)**	**444,122**
NET POSITION							
Unexpended Appropriations							
- Funds Other than Dedicated Collections	1,137,204	811,569	325,363	49,704	2,323,840	-	2,323,840
Cumulative Results of Operations							
- Funds Other than Dedicated Collections	(33,730)	429,269	31,509	17,843	444,891	-	444,891
TOTAL NET POSITION	**1,103,473**	**1,240,838**	**356,871**	**67,547**	**2,768,731**	**-**	**2,768,731**
TOTAL LIABILITIES AND NET POSITION	**1,428,733**	**1,311,449**	**407,260**	**67,685**	**3,215,127**	**(2,274)**	**3,212,853**

Defense Information Systems Agency
General Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of Sept. 30, 2021
(thousands)

	O&M	PROC	RDT&E	MILCON	**Combined**
Budgetary Resources (discretionary and mandatory):					
Unobligated balance from prior year budget authority, net	$ 343,543	$ 225,782	$ 145,192	$ 14,641	$ 729,158
Appropriations	2,536,949	511,269	408,986	33,978	3,491,182
Spending Authority from offsetting collections	154,955	7,885	34,497	-	197,337
Total Budgetary Resources	$ 3,035,448	$ 744,935	$ 588,674	$ 48,619	$ 4,417,677
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 2,822,039	$ 499,722	$ 466,342	$ 27,159	$ 3,815,262
Unobligated balance, end of year:					
Apportioned, unexpired accounts	12,047	185,437	80,147	12,006	289,637
Unexpired unobligated balance, end of year	12,047	185,437	80,147	12,006	289,637
Expired unobligated balance, end of year	201,362	59,776	42,186	9,454	312,778
Unobligated balance, end of year (total)	$ 213,409	$ 245,213	$ 122,333	$ 21,460	$ 602,415
Total Budgetary Resources	$ 3,035,448	$ 744,935	$ 588,675	$ 48,619	$ 4,417,677
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	$ 2,667,574	$ 706,752	$ 491,883	$ 2,392	$ 3,868,601
Agency Outlays, net (discretionary and mandatory	$ 2,667,574	$ 706,752	$ 491,883	$ 2,392	$ 3,868,601

Defense Information Systems Agency
General Fund
CONSOLIDATING STATEMENT OF NET COST
As of Sept. 30, 2021
(thousands)

PROGRAM COSTS	O&M	PROC	RDT&E	MILCON	**Combined**	**Intra-Entity Eliminations**	**FY 2021 Consolidated**
Gross Costs	3,098,754	540,313	550,051	2,758	4,191,876	(17,793)	4,174,083
Less: Earned Revenue	(165,836)	(4,719)	(42,278)	-	(212,833)	17,793	(195,040)
Net Cost of Operations	**2,932,918**	**535,594**	**507,772**	**2,758**	**3,979,043**	**-**	**3,979,043**

Other Information

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

08 October 2021

MEMORANDUM FOR DIRECTOR (D)

SUBJECT: Top Management and Performance Challenges Facing the Defense Information Systems Agency (DISA) in Fiscal Year 2022

The Reports Consolidation Act of 2000 requires the DISA Office of the Inspector General (OIG) to issue a report summarizing what the OIG considers as serious management andperformance challenges facing DISA and assessing the agency's progress in addressing those challenges. The Defense Information Systems Agency is required to include this report in its agency financial report. This report represents DISA OIG's independent assessment of the top management challenges facing DISA in fiscal year 2022.

In developing this report, the DISA OIG considered several criteria including items such as the impact on safety and cyber security, documented vulnerabilities, large dollar implications, high risk areas, and the ability of DISA to effect change. We reviewed recent and prior internal audits, evaluations, and investigation reports; reports published by other oversight bodies; and input received from DISA senior leadership. In addition, we recognize that DISA faces the extraordinary task of meeting these challenges while also responding to the COVID-19 global pandemic and continuing to work in a maximum telework environment.

The DISA OIG identified four challenges this year. The challenges are not listed in a specific order and all are considered significant to DISA's work. The agency's top management and performance challenges for fiscal year 2022 include:

- Meeting the 2020 DoD Data Strategy
- Managing Human Capital in a Post COVID-19 Environment
- Cyber Supply Chain Risk Management
- Current and Future Contracting Environment
- Mission Partner Payments

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Stephen M. Ryan
DISA Inspector General

Challenge 1
Meeting the 2020 DoD Data Strategy

DISA faces the challenge of meeting the DoD's data management goals outlined in the 2020 DoD Data Strategy. Data management is the practice of collecting, keeping, and using data securely. DISA has a vast infrastructure that transports mission partner data internally and externally while successfully maintaining various operating systems that produce massive amounts of complex data. Specifically, DISA must secure data and make it visible, accessible, and usable for analytics.

Per the DoD Strategy Memorandum, data security is an area the DoD must mature. The federal government is under constant data-driven cyber-attacks. For example, in June 2015, the United States Office of Personnel Management (OPM) announced that it had been the target of a data breach targeting personnel records. Recently, in 2020, the "Solar Winds" cyberattack by a groupbacked by a foreign government penetrated thousands of organizations globally including multiple parts of the United States federal government, leading to a series of data hacks. DISA has the responsibility to help DoD modernize the infrastructure and identify, protect, detect, respond, and recover from data threats.

The DoD Data Strategy also aims to evolve data into actionable information for decision makers. To help address these challenges, DISA established the Chief Data Officer (CDO). DISA is also re-aligning its policies, processes, and organizational structure to support enterprise data management. DISA is creating a data centric organization that uses data at speed and scale for operational advantage requiring DISA to fully understand the universe of operating systems and how that data is being used and where it is being stored. Investing in automation and a robust infrastructure that promotes sharing data across multiple platforms will allow DISA to breakdown current data silos.

Challenge 2
Managing Human Capital in a Post COVID-19 Environment

COVID-19 forced DISA to change the way it operates to accomplish its mission through maximum telework and new technologies and tools enhancing communication, collaboration, and coordination both internally and with mission partners. The rapidly changing environment presents new challenges on a daily basis requiring DISA leadership to adapt quickly. Moving forward, DISA leadership will be presented with new challenges in managing the new environment such as maintaining employee morale, managing and enhancing employee retention, on-boarding new employees, providing a safe and secure work environment, and embracing technology and tools while maintaining a strong culture and high productivity.

Employee morale and productivity in the evolving environment is part of the ongoing challenges. During evaluations conducted by the DISA OIG, the vast majority of interviewees said morale was the same or improved and pre-COVID productivity levels and quality of work were maintained. SES personnel interviewed indicated difficulty with determining metrics for measuring productivity in a virtual environment. Moving forward, morale and productivity may be impacted which can aid in shaping policies and identifying key metrics for monitoring performance and productivity. This challenge will present pros and cons of new policies including expanded telework and remote work as it relates to employee morale and productivity.

The evolving work environment that includes telework and remote work will require continuing assessment to maximize staffing and broaden the hiring pool of candidates in various geographical regions to attract and retain high quality talent. Identifying a clear vision of DISA's post-COVID-19 environment assists in recruiting and hiring highly qualified talent and retaining employees as more flexible options are considered a benefit. In addition, DISA will be challenged to balance organizational needs with a sustainable number of employee positions to include manpower right-sizing efforts while retaining high quality staff.

Human capital improvements include the updates to how DISA on-boards new employees and physically protect employees. Conducting on-boarding virtually introduces new challenges with acclimating new employees into the DISA culture. A DISA OIG evaluation recommended extending the on-boarding and orientation time period to allow valued aspects of culture to be developed. DISA's workspace management decisions will be impacted by the need to protect employees through telework and social distancing creating additional challenges.

Technology is an important component in the virtual environment. As the Agency transitions, communication and collaboration through technology and other tools will be key to assist in managing all challenges of human capital.

Challenge 3
Cyber Supply Chain Risk Management

Strengthening and securing DISA's Cyber Supply Chain is an enduring management challenge. DISA provides, operates, and assures command and control, information-sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to the warfighter, national-level leaders, Combatant Commands, and coalition partners across the full spectrum of military operations.

Cyber supply chain risk is the possibility an adversary may exploit the supply chain to corrupt our software, steal information, and carry out other malicious activities. To support this mission, DISA relies on an international supply chain to provide software, hardware, and services. The cyber supply chain includes a complex web of manufacturers, suppliers, and contractors.

To secure the cyber supply chain, DISA must protect, detect, respond, and recover from supply chain threats. Specifically, Cyber Supply Chain Risk Management (C-SCRM) is the process of identifying, assessing, and mitigating the risks associated with the distributed and interconnected nature of Information Technology (IT) services and supply chains. C-SCRM covers the entire life cycle of the supply chain, including design, development, distribution, deployment, acquisition, maintenance, and destruction. C-SCRM also includes cybersecurity, software assurance, obsolescence, counterfeit parts, foreign ownership of sub-tier vendors, and other categories of risk that affect the supply chain. Successful C-SCRM maintains the integrity of products, services, people, technologies, and ensures the undisrupted flow of product, materiel, information, and finances.

Examples of DISA Cyber Supply Chain risks include mobile technology, commercial off the shelf (COTS) technology, and reliance of foreign suppliers. Fifth generation wireless technology, more commonly called 5G, builds upon existing telecommunication infrastructure to improve bandwidth and capabilities and reduce network-generated delays. The 5G networks may introduce vulnerabilities such as malicious software and hardware, counterfeit components, and interconnectivity of foreign equipment. Similarly, COTS software and hardware allows DISA to adopt current and effective technologies and are integrated into existing IT systems, but often these supplies come from foreign suppliers which increases the risk to DISA systems. Ultimately, DISA and the Department will face a significant challenge safeguarding the cyber supply chain as well as finding domestic supply sources.

Challenge 4
Current and Future Contracting Environment

Contracting is a top management challenge at DISA due to increased mission partner contracting requirements without the respective increase in staffing levels causing the inability to sufficiently and effectively meet DoD and other federal agency mission needs. DISA Procurement Services Directorate (PSD)/Defense Information Technology Contracting Organization (DITCO) provides procurement services for Information Technology, Telecommunications, and Cyber domains in defense of our nation. PSD has turned away mission partner requests in the past year, resulting in lost revenue, due to DISA's hiring limitations and PSD's mission requirements, increasing workload, and retention challenges.

In addition, PSD identified the submission of late procurement packages and late funding from internal and external mission partners as a challenge. Late procurement packages occurred because of contract package routing delays, requirement definition issues, unfunded requirements delays, and contract scope issues. Other challenges in contracting faced by PSD and mission partners are increased by OMB, OSD, DoD, and DISA funding and other indirect process issues. PSD and the Office of the Chief Financial Officer are collaborating to implement process improvements to fulfill contract requirements in a timely manner and meet mission partner needs.

The DISA Office of Inspector General (OIG) audits also reported concerns relating to contracting at DISA; specifically, contracts pertaining to mobility devices, government furnished property, cyber safeguards of defense information clause, and contractor workspace designations. Additionally, evaluations reported concerns relating to Contracting Officer Representative (COR) performing their duties and DITCO's oversight of CORs. CORs ensure delivery of supplies and critical mission services; however, inadequate COR oversight could result in a decreased quality of contractor services.

Challenge 5
Mission Partner Payments

DISA continues to have challenges obtaining Mission Partner (Military Services and Defense/Non-Defense Agencies) payments in a timely manner for reimbursable costs incurred. DISA provides goods and services through the Defense Working Capital Fund (DWCF) Computing and Telecommunications process or by appropriated reimbursable economy act orders. The goal of this reimbursable support is for customers to leverage the buying power of the Government to acquire goods and services in the most efficient and cost-effective manner. DISA DWCF in FY21 managed approximately 2,534 Computing orders, 16,323 PDCs, and 526 Telecommunication MIPRs. DISA General Fund managed 1,588 reimbursable projects.

DISA spends a considerable amount of staffing resources and time reaching out to Mission Partners on delinquent account receivables (AR) for reimbursable orders. DISA officials take several actions to attempt collection of past due accounts by holding several meetings with Mission Partners throughout the year to discuss the respective past due AR, sending notices when each AR reaches 90-days delinquent, and issuing formal collection letters when each AR reaches 120-days delinquent. Finally, if a Mission Partner is not reimbursing DISA according to the support agreement for services previously ordered, the OCFO elevates to the Under Secretary of Defense (C) (PB) and/or Treasury for further collection action. This challenge is compounded by multiple factors outside of DISA's control. According to DISA OCFO, there were numerous reasons why Mission Partners are waiting to submit payment closer to the fiscal year end to include: funding uncertainties, reduced budgets, changes to Reimbursable Agreements, and no penalties applied to customers with delinquent accounts. Delaying payment increases DISA's risk of not collecting payment by fiscal year end. The total past due accounts receivable at 30 September 2021, totaled \$6.79M in Computing and \$2.64M in Telecommunications DWCF orders. The total past due accounts receivable for the DISA General Funds at 30 September 2021, totaled \$10.5M.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General (OIG) is an impartial fact-finder for the Director and leaders of DISA. The OIG seeks to improve the efficiency and effectiveness of DISA's programs and operations by conducting Audits, Investigations, and Evaluations. The OIG then evaluates and coordinates to close the recommendations through the Liaison office.

AUDIT

OIG Audit provides independent and objective audit services to promote continuous performanceimprovement, management, and accountability of DISA operations, programs, and resources to support DISA's missions as a Combat Support Agency. The types of services OIG Audit provides are performance audits, attestation engagements, financial audits, and, occasionally, non-audit services. OIG Audit is built on a framework for performing high-quality audit work with competence, integrity, and transparency.

INVESTIGATION

OIG Investigation supports the efficiency and effectiveness of DISA by providing accurate, thorough, and timely investigative products to key Agency leaders. OIG Investigation performs five primary functions: Hotline Program, Administrative Investigations, Digital Forensics, Criminal Investigation Liaison Support, and Fraud Awareness Program. Fundamental purpose of investigations is to resolve specific allegations, complaints, or information concerning possible violations of law, regulation, or policy.

EVALUATION

OIG Evaluation conducts evaluations and special inquiries to improve processes, optimize the effective use of military and civilian personnel, enhance operational readiness, assess focus areas, and provide recommendations for improvement while teaching and training. The fundamental purpose of evaluations is to assess, assist, and enhance the ability of a command or component toprepare for and perform its assigned mission.

LIAISON

OIG Liaison serves as the conduit between DISA and external parties by providing guidance and assistance ensuring leadership, at all levels, is appropriately informed and ensuring external agency objectives are met while minimizing the impact to DISA operations. OIG Liaison supports DISA as a whole by providing:

- Audit Coordination- Monitor all oversight activities impacting DISA.
- Communication- Liaison between DISA leadership and external parties.
- Follow-up- Track and ensure implementation of all external/internal recommendations.

Payment Integrity

For compliance with the Payment Integrity Information act of 2019 (Pub. L. No. 116-117, 31 U.S.C. § 3352 and § 3357), DISA has an internal control structure in place to mitigate improper payments that could result in payment recovery actions. Actions taken to prevent overpayments include testing and review of 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. Controls are in place through established policy and procedures; training; separation of duties; and data mining to identify risks and fraud vulnerabilities. Additionally, the Defense Finance and Accounting Service (DFAS), as DISA's accounting service provider, performs overpayment recapture functions on behalf of DISA. DFAS includes DISA transactions in their sampling populations for improper payment testing.

DoD OIG Audit Report Transmittal Letter

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

November 8, 2021

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Information Systems Agency General Fund Financial Statements and Related Notes for FY 2021 and FY 2020 (Project No. D2021-D000FL-0065.000, Report No. DODIG-2022-014)

We contracted with the independent public accounting firm of Kearney and Company to audit the Defense Information Systems Agency (DISA) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2021, and 2020. The contract required Kearney and Company to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DISA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney and 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, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). Kearney and Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DISA General Fund Financial Statements. As a result, Kearney & Company could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney & Company did not express an opinion on the DISA General Fund FY 2021 and FY 2020 Financial Statements and related notes.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses five material weaknesses related to the DISA General Fund's internal controls over financial reporting.* Specifically, Kearney & Company's report concluded that DISA did not implement adequate controls to:

- reconcile and report Fund Balance With Treasury;
- validate, reconcile, and support Accounts Receivable and revenue transactions;
- validate, record, and support Accounts Payable and expense transactions;
- validate, record, and support budgetary resource related transactions; and
- provide accurate and timely financial reporting information.

Kearney & Company's additional report, "Independent Auditor's Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Kearney & Company's report describes instances in which DISA did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DISA General Fund FY 2021 and FY 2020 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DISA's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached November 8, 2021 reports, and the conclusions expressed within the reports.

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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.

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 were engaged to audit the accompanying General Fund (GF) financial statements of the Defense Information Systems Agency (DISA), which comprise the Balance Sheets as of September 30, 2021 and 2020, the related statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the "Basis for Disclaimer of Opinion" paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

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

We were unable to obtain sufficient appropriate audit evidence to support the existence and accuracy of Fund Balance with Treasury (FBWT), Accounts Receivable (AR), Accounts Payable (AP), Earned Revenue, Gross Costs, and the related budgetary accounts. DISA was unable to provide sufficient supporting documentation to complete testing over the FBWT, AR, AP, Earned Revenue, and Gross Costs line items in fiscal year (FY) 2021. DISA was unable to provide sufficient supporting documentation in a timely manner to complete testing over

Financial Reporting. Specifically, we were unable to obtain sufficient appropriate audit evidence to support Undistributed and Unmatched transactions, as they materially impact each of the aforementioned audit areas. DISA was unable to provide sufficient supporting documentation to complete substantive testing over Undistributed and Unmatched transactions.

Undistributed transactions are disbursements and collections from feeder systems that were unable to interface into DISA's general ledger (GL) system. Unmatched transactions are disbursements that interface into DISA's GL system, but do not match to an obligating document in the GL system. DISA reported a material amount of both unmatched and undistributed transactions each quarter-end during FY 2021. As of September 30, 2021, DISA reported unmatched transactions of $19.1 million in AP and $12.3 million in Gross Costs and $13.0 million on the Statement of Budgetary Resources (SBR). As of the date of this report, DISA has not yet been able to determine the amount of the undistributed transactions at September 30, 2021. Unmatched and undistributed transactions prevent DISA from preparing and supporting transaction-level lists of activity for its Revenue, Expense, AR, AP, and Related Budgetary Accounts.

The undistributed and unmatched transactions significantly impacted our audit procedures and were the primary reason for DISA's inability to accurately provide sufficient audit evidence in these areas.

As of September 30, 2021, DISA reported $2.7 billion in FBWT, $51.3 million in AR, and $360.8 million in AP on its Balance Sheet. As of September 30, 2021, DISA reported $195 million of Earned Revenue and $4.2 billion of Gross Costs on its Statement of Net Cost.

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

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information, as named in the Agency Financial Report (AFR) (hereinafter referred to as the "required supplementary information"), be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal

Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of matters described in the "Basis for Disclaimer of Opinion" section above. We do not express an opinion or provide any assurance on the information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information, as named in the 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 OMB Bulletin No. 21-04, we have also issued reports, dated November 8, 2021, on our consideration of the DISA GF's internal control over financial reporting and on our tests of the DISA GF's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2021. 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. 21-04 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 8, 2021

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We were engaged to audit, in accordance with 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. 21-04, *Audit Requirements for Federal Financial Statements*. The General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the DISA GF's financial statements, and we have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the DISA GF, we considered the DISA GF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DISA GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DISA GF's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 21-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider one deficiency described in the accompanying Schedule of Findings to be a significant deficiency.

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

The DISA GF's Response to Findings

The DISA GF'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). The DISA GF's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements; 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 the DISA GF's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2021

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. ***Exhibit 1*** presents the material weaknesses identified during our audit.

Exhibit 1: Material Weaknesses and Sub-Categories

Material Weakness	Material Weakness Sub-Category
I. Fund Balance with Treasury	A. Budget Clearing Account Reconciliation and Reporting Processes B. Statement of Differences Reconciliation and Reporting Processes C. Lack of Controls over the Cash Management Report Creation Process D. Cash Management Report Reconciliation and Reporting Procedures E. Lack of Controls over the Department 97 Reconciliation and Reporting Tool Process
II. Accounts Receivable/Revenue	A. Revenue Samples Not Supported B. Allowance for Doubtful Accounts C. Lack of Revenue Recognition and Collection Validation
III. Accounts Payable/Expense	A. Lack of Accounts Payable Validation B. Expense Samples Not Supported C. Lack of Receipt and Acceptance D. Lack of Operating Effectiveness Relating to the Certification and Documentation of Travel Expense
IV. Budgetary Resources	A. Invalid Unfilled Customer Orders Without Advance Transactions B. Invalid Undelivered Orders Transactions C. Untimely Unfilled Customer Order Transactions D. Untimely Undelivered Order Transactions E. Inaccurate Recoveries of Prior-Year Unpaid Obligations F. Unsupported Appropriations
V. Financial Reporting	A. Untimely Issuance of Requested Audit Documentation and Financial Statement Package B. Accounts Payable Federal/Non-Federal Classification C. Abnormal Accounts Payable Balance Recorded on the Quarters 1-2 Balance Sheet

Material Weakness	Material Weakness Sub-Category
	D. Lack of Documentation and Approval of DISA Management's Assessments Related to its Reporting Entity and Applicability of Insurance Programs per SFFAS Requirements E. Unmatched Accounts Payable, Expense, and Related Budgetary Transactions F. Defense Agencies Initiative Interface and Lack of Data Element Issues Relating to Wide Area Workflow and Defense Travel System G. Lack of Timely Validation of Undistributed Journal Vouchers H. Unreconciled Differences between General Fund to Working Capital Fund Expense, Accounts Payable, and Related Budgetary Accounts

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

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

A. Budget Clearing Account Reconciliation and Reporting Processes
B. Statement of Differences Reconciliation and Reporting Processes
C. Lack of Controls over the Cash Management Report Creation Process
D. Cash Management Report Reconciliation and Reporting Procedures
E. Lack of Controls over the Department 97 Reconciliation and Reporting Tool Process

A. Budget Clearing Account Reconciliation and Reporting Processes

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. The Treasury Financial Manual (TFM) Bulletin No. 2021-03, *Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts*

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F3500 and F3502 as a Central Accounting Reporting System (CARS) Reporter, 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), the Department of the Navy (TI-17), the Department of the Air Force (TI-57), and the Department of the Army (TI-21) suspense accounts, based on DoD disbursing processes.

Condition: DISA, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions recorded in suspense accounts do not contain DISA collections and disbursements that should be recognized in the 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 after Quarter-end in a timely manner to perform sufficient analysis for financial reporting.

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. DoD suspense accounts continue to contain a high volume of collections and disbursements which require manual research and resolution. 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.

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 and other financial statement line items, as applicable.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that DISA implement internal control activities to ensure that 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 and assist its service organization with necessary supporting documentation for corrections, if needed.
3. Consider any limitations to its service organization's 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. Estimates should only be developed using relevant, sufficient, and reliable information.

5. Work with its service organization to continue to develop procedures to determine what portion of the suspense balances, if any, should be attributed to DISA for financial reporting in a timely manner, available for year-end financial reporting purposes.
6. Work with its service organization to continue to monitor and track the resolution of suspense activity cleared to DISA to enable DISA to perform root cause analysis.
7. Work with its service organization to continue to implement more effective system and process controls than what currently exists to ensure that disbursements and collections are processed with valid TI, Treasury Account Symbol (TAS), and fiscal year (FY) inputs.
8. Work with its service organization to continue to develop and implement processes and controls to eliminate instances where transactions are being placed in suspense accounts intentionally.

B. Statement of Differences Reconciliation and Reporting Processes

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

Treasury compares data submitted by financial institutions and Treasury Regional Financial Centers to ensure the integrity of the collection and disbursement activity submitted. A Statement of Differences (SoD) report, known as the Financial Management Services (FMS) 6652, is generated monthly in Treasury's 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, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions which comprise the SoD balances in DISA's primary DSSNs do not contain DISA collections and disbursements that should be recognized in DISA's accounting records. While its service organization prepares quarterly SoD management analyses for each DSSN to identify the total count and amount of SoD transactions resolved to DISA and other Defense agencies, the management analyses are not available after Quarter-end in a timely manner to perform sufficient analysis for financial reporting.

Cause: The process performed by DISA's service organization to create the SoD universe of transactions (UoT) is a time-intensive and manual process that requires the consolidation of multiple files from various sources and subsequent manual research to identify the owners of the transactions. As such, the UoTs are not available after Quarter-end in a timely manner to perform sufficient analysis for financial reporting 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. While its service organization has continued efforts to identify root causes by DSSN to reduce SoD balances and clear transactions to DoD entities timely, shared ALCs and lack of Line of Accounting (LOA) information continue to make it difficult to resolve differences timely.

Effect: DISA cannot identify and record its SoD activity into its GL and financial statements pursuant to quarterly financial reporting timelines. DISA's service organization's inability to provide complete and final UoTs in a timelier manner to DISA, a lack of compensating internal controls or monitoring procedures and analyses in place by DISA, and a lack of a methodology to determine the financial reporting impact of the SoD balances all inhibit DISA's ability to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

Recommendations: Kearney recommends that DISA implement internal control activities to ensure that material 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. Work with its service organization to continue to work towards researching and resolving SoD transactions in a timely manner.
2. Work with its service organization to continue assessing and identifying ALCs that primarily report collection and disbursement activity to Treasury on behalf of DISA.
3. Continue working with Treasury, the Office of the Secretary of Defense (OSD), its service organization, and other parties utilizing shared NTDO reporting ALCs to transition away from using monthly NTDO reporting ALCs to daily TDO reporting ALCs.

4. Consider any limitations to its service organization's 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.
5. 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.
6. Work with its service organization to continue to develop procedures to determine what portion of the SoD balances, if any, should be attributed to DISA for financial reporting in a timely manner, available for year-end financial reporting purposes.
7. 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.
8. Continue scheduling recurring meetings with its service organization to help resolve outstanding differences.

C. Lack of Controls over the Cash Management Report Creation Process

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's Treasury Division produces the 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), with the following components:
  - A text file of current and cumulative year-to-date disbursement and collections transactions
  - A Period of Availability (POA) crosswalk table maintained by Fiscal Code Team at DISA's service organization per 7097 and the Sub-Allocation Holder Identifier (SAHI) regulations
- Defense Cash Accounting System (DCAS), which includes a Navy Subhead distribution file to crosswalk Navy subheads to valid OSD limits
- Treasury CARS data, with the following data:
  - Funding and expenditure data by appropriation reported to U.S. Treasury by ALCs for the current FY
  - Net Activity Data by appropriation reported to Treasury by ALCs for the current FY
- Defense Departmental Reporting System – Budgetary (DDRS-B)
- Program Budget Accounting System (PBAS)/Enterprise Funds Distribution (EFD), which contains TI-97 funding.

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 TI-97 Audit Workbooks 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 identified 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 the Defense Cash Management System (DCMS) into HQARS, as well as to the files imported or interfaced into HQARS for the DSSNs managed by its service organization
- 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 these 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 remain undetected by management. DISA is unable to support the completeness and accuracy of its FBWT without sufficiently documented procedures and controls over the generation of the CMR. The internal control deficiencies over the creation of the CMR also mean that the assignment of transactions in the CMR to various ODOs may not be accurate. As a result, DISA's financial statements may contain significant misstatements that may not be detected and corrected in a timely manner.

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

1. Work with Treasury to establish subaccounts under the basic symbols (0100, 0300, 0400, 0500) that are unique to DISA so that it can obtain CARS reports to document its FBWT balance directly from Treasury and remove the need for the creation of the CMR.

In addition, Kearney recommends that DISA perform the following:

1. Work with its service organization to continue developing and formally documenting the beginning-to-end business process and internal controls for the CMR creation process in a written narrative and flowchart that includes the following information, at a minimum (not an all-inclusive list):
    a. Process description at a detail level: Provide a description of each process at the detail level in the order in which it occurs to allow for traceability from the beginning to the end of the process.
    b. 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; note how performance of the control is documented; and verify that there is appropriate and sufficient evidence.
    d. Identify key supporting documents: 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.
2. Continue to 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.
3. 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.
4. Create the CMR in a system with appropriate general application information technology (IT) controls to prevent changes to the data without appropriate authorization.

D. Cash Management Report Reconciliation and Reporting Procedures

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

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

Condition: DISA, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions recorded in the CMR Reconciling Items and Unidentified Variances do not contain DISA collections and disbursements that should be recognized in DISA's accounting records. While its 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 after Quarter-end in a timely manner to perform sufficient analysis for financial reporting.

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 Variances 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. While DISA's service organization has continued efforts to identify root causes, clear transactions to DoD entities timely, and significantly reduced the balance of the CMR Reconciling Items and Unidentified Variances throughout 2021, shared basic symbols and lack of LOA information continue to make it difficult to resolve differences timely.

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 and other financial statement line items, as applicable.

Recommendations: Kearney recommends that DISA perform the following:

1. Work with Treasury to establish subaccounts that are unique to DISA, under the basic symbols 0100, 0300, 0400, and 0500, so that it can obtain Treasury CARS reports to document its FBWT balance directly from Treasury and remove the need for the creation of the CMR.

2. Work with Treasury, the OSD, and its service organization to transition to daily, direct Treasury Disbursing Offices (TDO) reporting ALCs.
3. With the support of its service organization, continue developing and implementing a methodology to identify the actual or estimated impact of CMR differences that should be attributed to DISA's FBWT account.
4. Consider any limitations to its service organization's CMR reconciliation process and continue developing compensating controls to reconcile any included FBWT activity or, through documented materiality analysis, indicate that management accepts the risk of potential misstatement.
5. Work with its service organization to ensure that the documented procedures are reviewed and updated regularly.
6. Work with its service organization to continue to monitor and track the resolution of the various CMR differences categories cleared to DISA to enable DISA to perform root cause analysis and create projections of potential outstanding unresolved balances.

E. Lack of Controls over the Department 97 Reconciliation and Reporting Tool Process

Background: As a DoD agency, DISA is required to prepare quarterly and annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP), as established by the Federal Accounting Standards Advisory Board (FASAB).

Department 97 Reconciliation and Reporting Tool (DRRT) is primarily used to reconcile TI-97 ODO disbursements and collections that have posted to the Treasury against the detailed transactions recorded in the ODOs' GL systems, as well as provide the basis for agencies' undistributed adjustments journal vouchers (JV). DRRT is a Transact-Structured Query Language (SQL) programmed system developed by the DISA's service organization.

DISA's service organization uses DRRT to perform monthly FBWT reconciliations for multiple ODOs, including DISA, to identify differences in FBWT balances between what is reported on the CMR and what is recorded in an entity's GL system. Individual ODOs utilize various financial systems, and financial data from these are collectively imported by DISA's service organization into DRRT for processing by DISA's service organization. The DRRT reconciliation process exists to ensure that the net FBWT balance attributed to and reported within an ODO's GL, including DISA General Fund's (GF) Defense Agencies Initiative (DAI) GL system, ties to the balance reported on the CMR for that agency. DISA is responsible for reconciling its FBWT monthly and maintaining effective internal controls over its financial reporting to prevent or detect material misstatements in a timely manner. This includes coordinating with its service organization, as necessary, and monitoring, reviewing, and approving the reconciling procedures performed on its behalf. Without administering these steps, DISA is at risk of posting unsupported adjusting entries and potentially reporting material misstatements in its financial statements.

Condition: DISA does not validate the information received from DRRT or have front-end controls in place to confirm the accuracy and completeness of the data attributed to DISA GF.

DISA's service organization does not have procedures or controls in place to reconcile input data imported into DRRT back to original source systems. Additionally, DISA's service organization does not have a process in place to validate that the limits assigned to transactions within DRRT are accurate and attributed to the correct entities, including the transactions attributed to DISA GF.

Cause: DISA and its service organization did not design and implement effective FBWT reconciliation controls to ensure that accurate, complete, and properly supported financial data is included within the DRRT reconciliation. DISA does not have an effective Office of Management and Budget (OMB) Circular A-123 program or an enterprise risk assessment process in place, which would include developing detective controls over recurring financial reporting procedures. Additionally, DISA's internal control program does not include testing controls to ensure they address the applicable financial reporting objectives.

Effect: As a result of the lack of effective controls over the DRRT reconciliation process, FBWT may be misstated and include transactions that do not belong to DISA, and misstatements may not be detected and corrected timely, causing a potential misstatement of DISA's financial statements.

Recommendations: Kearney recommends that DISA perform the following:

1. Develop and implement procedures for effective communication with its service organization throughout the DRRT reconciliation process to ensure there is DISA management review and approval of the data being attributed to DISA from DRRT.
2. Develop and implement effective controls to ensure the validation and/or review of the data produced by DRRT received from its service organization before it is recorded into DISA's GL system.
3. Coordinate with its service organization to develop and implement a process in which data imported into DRRT is traced to original source systems and the accuracy of the LOA information is validated.
4. Develop a more effective internal control program, including an enterprise-wide risk assessment, to determine risks in financial reporting and implement detective controls in line with financial reporting objectives.
5. Work with its service organization to develop and implement effective controls related to identifying and analyzing the risk with regard to the incorrect and incomplete data used for ODOs' financial statement compilation, including an analysis of internal and external factors, involving appropriate level of management, and determining how to respond to risk.
6. Work with its service organization to develop and implement effective procedures to internally communicate information necessary to support the functioning of internal controls related to the DRRT reconciliation, including relevant objectives and responsibilities. These procedures should include the flow of information up, down, and across the entity using a variety of methods and channels.

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

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

A. Revenue Samples Not Supported
B. Allowance for Doubtful Accounts
C. Lack of Revenue Recognition and Collection Validation

A. Revenue Samples Not Supported

Background: DISA participates in various types of transaction activities that generate revenues for the agency that are reported on the Statement of Net Cost (SNC). Specific to the DISA GF, these revenues are generated primarily to provide information system (IS) services to various trading partners throughout the FY. The DISA GF revenues recorded for the period ended September 30, 2021 totaled $195 million. DISA management is responsible for ensuring revenue transactions are recorded in the correct period for the correct amount.

As part of the procurement process, DISA prepares billing documentation for services performed for its customer. This invoice type varies, as it is dependent on whether the transaction is between another Government agency or a commercial vendor. Another type of document, which is typically included in addition to the invoice provided by DISA, relates to an SF-1080, *Vouchers for Transfers Between Appropriations and/or Funds.* Each source of intragovernmental transaction and billing on behalf of the customers are processed by its service organization and collected on behalf of the performing agency.

Condition: In response to noted exceptions, a pilot sample of 25 GF Revenue transactions was selected for review. Within the testing, DISA could not support 10 exceptions, totaling $449 thousand. Exceptions related to revenues recorded by DISA in the current year; however, the supporting documentation provided indicated the revenue was earned in a prior year. Additional exceptions were noted for transactions in which DISA was not able to provide sufficient audit evidence to support what period the revenue was earned.

Cause: DISA's service organization does not maintain appropriate evidence to support when revenue was earned. DISA management does not have processes or controls in place to consistently provide an invoice to customers that details the period in which revenue was earned. Many of DISA's revenue transactions are driven by its expense recognition. As noted in Section V.G, *Lack of Timely Validation of Undistributed Journal Vouchers*, a significant number of payments (expenses) were not recorded in DISA's financial accounting system timely. Further, as noted in Section III.B, *Expense Samples Not Supported*, DISA was unable to support 14 of 25 sampled expenses transactions.

Effect: Without effective controls relating to customer billings, DISA is unable to ensure that revenues will be billed and collected accurately, completely, and in a timely manner. DISA management was unable to provide the applicable invoice and billing documentation to support the validity, accuracy, and occurrence for 10 of 25 sampled revenue transactions reported on the FY 2021 financial statements.

Recommendations: Kearney recommends that DISA perform the following:

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

B. Allowance for Doubtful Accounts

1. Lack of Implementation of Technical Bulletin 2020-1

Background: FASAB's Technical Bulletins 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 Technical Bulletin:

- 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 Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, on February 20, 2020 and required implementation upon issuance in FY 2020. Technical Bulletin 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: As of Quarter (Q) 2 of FY 2021, the DISA GF had not yet implemented the applicable provisions of FASAB Technical Bulletin 2020-1, which establishes the requirement to determine if a loss allowance is required relating to any outstanding intragovernmental receivables. During FY 2021, DISA created a policy regarding Technical Bulletin 2020-1. However, it did not document an analysis over the outstanding Aged Accounts Receivable (AR) balances in order to determine whether DISA would collect the receivables from its Federal agency customers and, therefore, if an allowance was required.

Cause: As of Q2 and during audit walkthroughs, DISA had not finalized its internal policy to monitor, execute, and consistently apply the methodology of the Technical Bulletin 2020-1-required implementation within the aged AR and Allowance for Doubtful Accounts. DISA did not document its assessment and determination on whether the GF would apply the updates to its Intragovernmental AR outstanding balance. DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives. Updates to the internal control program will help to identify and remediate control gaps.

Effect: Without procedures and a documented analysis to implement, determine, and apply Technical Bulletin 2020-1 on DISA's AR balances, specifically that of the Intragovernmental Receivables, included on its Balance Sheet are at increased risk for misstatements.

Recommendations: Kearney recommends that DISA perform the following:

1. Perform and document an assessment to determine if an allowance for doubtful accounts, including those from Federal entities, is required per Technical Bulletin 2020-1.
2. Update the policies and SOP to reflect any changes or processes created to document DISA management's assessment.

2. Untimely Implementation of Treasury Report on Receivables Approvals and Unreconciled Differences between the Monthly Receivables Data and Defense Agencies Initiative Data

Background: Treasury requires each reporting entity to prepare a quarterly Treasury Report on Receivables (TROR). The TROR serves as a management report that informs Federal decision-makers of the gross book value of the receivables owed to Federal agencies and the status of the Federal Government's debt portfolio. On a monthly basis, agencies also create the Monthly Receivables Data (MRD) Report, which outlines the monthly amounts of the receivables noted that are essentially combined quarterly for the TROR reporting. The amounts included with the TROR are required to reconcile to the DoD agencies' audited financial statements. Furthermore, the certification of the TROR indicates that the delinquent debt amounts reported on the Receivables Report for cross-servicing and Treasury offset are correct and legally enforceable.

Due to the results of control deficiencies issued in the FY 2020 financial statement audit of the DISA GF, DISA took action in documenting an internal control environment and various control activities for AR processes. DISA relies on its service organization to complete, compile, and certify the TROR and MRD Reports for DISA's GF. DISA's service organization reviews DISA's inputs in DAI and populates the standard template package with the public AR data. DAI is managed by a third party, the Defense Logistics Agency (DLA), who established a

Project Management Office (PMO) to assist customer agencies with troubleshooting issues and system functions. With the DAI data, DISA's service organization's personnel reconcile the MRD to the TB. DISA's service organization submits the final TROR package to DISA for review prior to its transmission to Treasury. DISA performs a review and tie-out of the TROR, noting DISA management's Common Access Card (CAC) signature, and is responsible for the oversight of the review of its service organization's documentation on behalf of DISA.

Condition: As of Q2 of FY 2021, DISA implemented a new control to review and approve the TROR. Through performing this control, DISA identified that the MRD Report had variances and did not reconcile to the TB due to a DAI system-wide issue. DISA worked with the DAI PMO to create an AR Report, noting the variance balance between the MRD and TB. DISA and its service organization were working through the DAI PMO Team to submit a help desk ticket in order to resolve the DAI issue.

Cause: DISA did not fully implement its new processes and controls related to AR for the entire FY under audit. As of Q2, DISA had not performed testing and formally implemented the new processes and controls in response to the FY 2020 finding in order to validate the review over the accuracy of the support created by DISA's service organization on behalf of DISA. DISA also confirmed, through the new AR procedures performed in FY 2021, that the MRD Report contained variances and did not reconcile to the DAI TB. As a result, a DAI system-wide issue contributed to the discovery of these variances between the MRD and TB balances. DISA, with the assistance of its service organization, has initiated the help desk ticket to the DAI PMO Team in an attempt to resolve the issues.

Effect: Without accurate DAI and MRD Report data and the appropriate DISA management oversight controls in effect, DISA GF may not be able to account for variances noted within the TROR and MRD Report submissions and record complete AR balances. There is an increased risk that if the MRD Report variances are not resolved in a timely manner by the DAI PMO Team, the Public AR balance may result in a potential misstatement on the DISA GF financial statements.

Recommendations: Kearney recommends that DISA continue to properly document and execute the corrective active plans (CAP) in place for the FY 2021 financial statement audit and coordinate with its service organization to perform the following:

1. Continue to reconcile, monitor, and review the TROR and MRD Report compiled by its service organization and provide management's approval of the data inputs prior to its service organization's submission to Treasury on behalf of DISA.
2. Perform a review and comparison over the MRD Report and TROR data variances, document its review throughout the process, and track the progress of the DAI PMO Team in its resolution of the outstanding issue.
3. Continue to monitor and provide updates of the progress made from the submitted DAI PMO help desk ticket.
4. Create and implement a process to perform a reconciliation between the MRD Report and TB data and determine the need for any potential adjustments.

5. Update and document any changes made to the MRD Report and TB reconciliation within the SOP.

3. Untimely Implementation of Controls for Allowance for Doubtful Accounts Estimate by Defense Information Systems Agency Management

Background: DISA relies on its service organization to create the applicable journal entry (JE), as well as create and obtain the necessary support for the Allowance for Doubtful Accounts estimate completed on a quarterly basis. An allowance for estimated uncollectible accounts should be recognized when it is more likely than not that the receivables will not be totally collected. These allowances should also be re-estimated on each annual financial reporting date, as well as when information has been obtained, indicating the latest estimate may not be correct. The estimates are created from the receivables that arise from claims to cash or other assets against another entity, which have not yet been received or paid. An allowance for doubtful accounts should be recognized to reduce the gross amount of receivables to its net realizable value.

DISA documented a new control relating to the review of its service organization's Allowance for Doubtful Accounts JE package, which includes documenting DISA management's approval of the workbook and documentation support to confirm the accuracy of the JE package. DISA management is responsible for reviewing the estimates created by its service organization, which are developed based on assumptions and relevant factors, prior to the posting of the transactions within the financial accounting system.

Condition: As of Q2, DISA implemented a new control to review and approve the Allowance for Doubtful Accounts JE package completed by its service organization. In Q2, DISA began its management oversight review for the work that its service organization completes on DISA's behalf. Prior to Q2, DISA did not document a consistent review of the package and calculations created for the Allowance for Doubtful Accounts balance, which were completed by its service organization, prior to its inclusion in the financial statements. DISA had not outlined consistent formal controls or documentation in place to ensure there was DISA management review of the support obtained by its service organization to create the estimate amount.

Cause: DISA did not fully implement its new processes and controls related to AR for the entire FY under audit. As of Q2, DISA had not yet performed a test for reasonableness of the estimation and assumptions utilized by its service organization prior to that Quarter nor formally implemented its approval controls of DISA's oversight review. Additionally, DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives; updates to the internal control program will help to identify and remediate control gaps.

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

Recommendations: Kearney recommends that DISA continue to execute the CAP in place for the FY 2021 financial statement audit and coordinate with its service organization to perform the following:

1. Ensure that the AR control environment incorporates any updates to the monitoring controls and review of DISA's AR balances, as well as its service organization's creation of the estimates and JV.
2. Perform testing and review of the documented internal controls to ensure the accuracy of the Allowance for Doubtful Accounts estimate.
3. Communicate and monitor the calculations and data created by its service organization and provide necessary feedback and timely approval to confirm the necessary estimate over the outstanding AR balances.
4. Continue to update and review the SOP and narratives to accurately reflect the input and management review.

4. Untimely Implementation of Controls and Processes Related to the Defense Information Systems Agency General Fund Aged Receivables

Background: AR arise from claims to cash or other assets. A receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the date they are due) or goods or services provided. When a receivable is not collected for an extended period of time and payments are outstanding, it would then be considered as a receivable to be monitored during the aging process.

DISA took action in documenting an internal control environment and various control activities for AR aging processes. DISA GF coordinates with mission partners that have outstanding payments for collections of various receivable transactions over 90 days in accordance with the DoD Financial Management Regulation (FMR). In order to properly monitor the aged receivables, DISA will complete and document a formal letter for debts greater than 90 days outstanding that would prompt the mission partner to submit its outstanding receivables. If there are transactions noted that fall into the greater than 120 days outstanding category, DISA creates and submits an Elevation Package for that specific mission partner's records and applicable debt notifications. Within the Elevation Package, DISA provides a signed memorandum by the Comptroller, formally notifying the mission partner of its aged outstanding receivables. DISA is responsible for establishing the policies and procedures to determine the collectability of the receivables to ensure that an allowance for the uncollectible amount is created, if necessary.

Condition: As of Q2 of FY 2021, DISA implemented the new controls to review and monitor the outstanding collections from its mission partners and coordinate with its service organization to ensure the process is consistent across the GF and Working Capital Fund (WCF), where procedures are currently in place. However, due to its newly implemented process, DISA has not completed testing or submitted the aged receivables collection letters, but it will begin sending the letters after notification to its mission partners/customer agencies of the updated process. Due to the timing of the control implementation in FY 2021, DISA does not yet maintain documented evidence to support the accuracy of the receivables, review the allowance for uncollectible amounts, nor confirm that communication was issued to its mission partners relating to those aged receivables greater than 90 days.

Cause: DISA did not fully implement its new processes and controls related to AR for the entire FY under audit. As of Q2, DISA had not yet performed testing and formally implemented the new processes and controls in response to the FY 2020 finding in order to monitor aging AR balances and resolve aged balances with its mission partners. Additionally, DISA GF had not reviewed unbilled accrued receivable balances or implemented procedures to document the review of the allowance for uncollectible receivable amounts. Also contributing to the process, DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives and updates to the internal control program will help to identify and remediate control gaps.

Effect: Without an effective review of aged receivables, there is an increased risk of DISA GF overstating its AR balances and not fully collecting funds from its mission partners. DISA GF also may not know the exact balances of what each mission partner owes and may be delinquent in collecting the funds, as its Elevation Letters and Packages controls have not been tested for effectiveness or officially sent out as of Q2 in FY 2021.

Recommendations: Kearney recommends that DISA continue to properly document and execute the CAPs in place for the FY 2021 financial statement audit and perform the following:

1. Ensure that the AR control environment incorporates any updates to the monitoring controls and review of DISA's AR balances and its service organization reconciliations.
2. Continue to develop, analyze, and test the newly implemented internal control procedures to perform a consistent review over the aged AR balances and establish procedures to document the review of the estimates of the applicable uncollectable allowances for each transaction.
3. Officially implement the processes to submit the formal memorandums and Elevation Packages to the mission partners in order to communicate and clear outstanding balances.
4. Update and continue to document the SOP to ensure the necessary controls are in place and properly tested for effectiveness, as well as coordinate with its service organization on matters relating to the recording of outstanding and aged receivables.

C. Lack of Revenue Recognition and Collection Validation

1. Lack of Revenue Recognition

Background: DISA provides goods and services to other Federal and commercial entities that generate revenue reported on the SNC. These revenues are generated primarily to provide information system (IS) services to various trading partners throughout the FY. Much of DISA's revenue is earned by performing work through Reimbursable Agreements. Under the Economy Act of 1932, which allows Federal agencies to use advances or reimbursements in return for providing others with goods and services, payment (via expenditure transfer) may be made in advance or reimbursements may be made. Advances and reimbursements from other Federal Government appropriations are available for obligation, but not disbursed until received, when the ordering appropriation records a valid obligation to cover the order. The Act states that the providing agency shall charge the ordering agency "on the basis of the actual cost of goods or services provided" as agreed to by the agencies. DISA management is responsible for ensuring all revenue is billed and recorded in the correct period for the correct amount.

Condition: DISA identified instances where goods and services were provided to other Federal agencies, but revenue was not being systematically recorded in its accounting system, DAI, as expected. Limited manual research identified four instances, totaling $1.1 million of unrecorded revenue; however, additional unidentified errors likely exist.

Cause: DISA relies on transaction posting models in DAI to ensure that revenue is recorded and billed. Expenditures relating to reimbursable activity should systematically generate revenue within DAI. DISA's manual research has not yet identified all causes of the unrecorded revenue identified to date. In addition, DISA did not establish or implement an effective control or process to review and reconcile reimbursable activity to ensure all revenue was being accurately recorded. DISA is in the process of designing a control to detect future instances and correct prior period errors.

Effect: DISA has not completed its analysis to determine the total impact of unbilled and unrecorded revenue in DAI. The revenue reported on DISA's SNC is not complete or accurate for the period ended March 31, 2021. DISA's Revenue and related Budgetary Accounts could potentially be materially misstated due to prior-year and current-year unrecorded revenue.

Recommendations: Kearney recommends that DISA perform the following:

1. Continue to research, identify, and quantity the total misstatement due to the lack of revenue recognition. Once complete, DISA should post the appropriate adjusting entries to ensure the SNC is materially correct.
2. Continue to design and implement processes and controls to ensure all revenue from reimbursable activities is actually recorded and reconciles to the associated expenditure.

2. Lack of Monitoring and Assigned Criteria of the Defense Information Systems Agency's Manual Collections Transactions

Background: Receivables arise from claims to cash or other assets against another entity. The DISA business process consists of its service organization processing collections received from DoD and Non-DoD entities on behalf of DISA. DISA's collections are received via automated or manual methods. Its service organization receives manual collections through the SF-1080 Print (PRN) process in the following classification categories: FedWire, Automated Clearing House (ACH)/Credit Card (Pay.Gov), and Physical Checks. The manual collections processed for the FedWire/ACH/Physical Checks transactions primarily occurs at its service organization, and each transaction received flows through its service organization prior to any involvement of DISA personnel. Based on the prior-year findings, DISA GF has taken actions outlined in its CAP for remediation efforts, but it had not fully executed those procedures in FY 2021. DISA is working with its service organization in creating a listing of customers and collection reports to improve the process in place for the GF. DISA's service organization also manually records the transactions that flow through FedWire and ACH on a spreadsheet as the transactions are received on behalf of various agencies. DISA GF is still in the process of determining which billing methods its customers utilize to accurately reconcile the balances. DISA's service organization is responsible for collecting these payments from the entities and ensuring that the collections are credited to DISA. However, DISA is responsible for monitoring its service organization to ensure that the applicable collections are recorded and apply to DISA.

DISA relies on its service organization to track the receipt of these manual collections and determine which payments pertain to DISA. The collections received via the FedWire, ACH, and Physical Checks processes may not arrive with any specific data to identify and link it to an agency, and each transfer from its service organization relies on the personnel to determine the applicable receiving agency. 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 amounts. DISA's service organization noted that there were processes in development to assign account numbers to Commands, which will then allow the service organization to automatically transfer the transactions to the applicable agency.

Condition: DISA has not fully implemented a process to create and maintain appropriate documentary evidence to support manual collections received through the FedWire, ACH, Physical Check processes. This can result in unmatched collections. DISA does not currently monitor its service organization to confirm and reconcile that the collections received via the FedWire/ACH/Physical Check processes are credited to the proper DISA account or the corresponding bill, resulting in potential unmatched collections.

Cause: In FY 2021, DISA developed a CAP but had not fully executed the procedures to remediate the finding. DISA has not provided oversight over the collections process in place at its service organization to ensure that the collections received through the various methods of collection have a proper review or agency-specific reconciliation prior to the acceptance and processing by its service organization on behalf of DISA. DISA has not implemented effective controls to monitor and review the listing of customer agencies in place at its service organization to ensure the applicable agencies are being credited for collections received and processed by its service organization on behalf of DISA and other DoD entities.

Effect: Without appropriate monitoring and a formalized, official customer listing in place at DISA's service organization, there is an increased risk that DISA could receive FedWire/ACH/Physical Check transaction collections that may not be related to DISA's operations or transactions and, thus, are credited to the incorrect customer. Additionally, DISA, in coordination with its service organization, determines the applicable agency, coordinates with the customer agencies, and applies 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. Continue to implement and test the CAP remediation efforts in place to further develop the GF's collections process.
2. Design, coordinate, and implement a process to document and perform a quarterly review of a formalized listing of DISA's customer agencies to ensure the listing continues to be updated and revised for any incoming FedWire/ACH/Physical Check collections received at its service organization on behalf of DISA to account for the accurate recording of the receivables.
3. Coordinate with its service organization to continue to implement and establish the current process to assign account numbers to Commands to automatically apply the applicable agency that is associated with the received wires.
4. Increase the review and communication of the agencies submitting collections to effectively monitor the process completed at its 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 on at least an annual basis.

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

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

A. Lack of Accounts Payable Validation
B. Expense Samples Not Supported
C. Lack of Receipt and Acceptance
D. Lack of Operating Effectiveness Relating to the Certification and Documentation of Travel Expense

A. Lack of Accounts Payable Validation

1. Invalid Aged Accounts Payable

Background: Accounts Payable (AP) are liabilities owed by the DoD for goods and services received from, progress in contract performance made by, and rents due to other entities. 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. DoD Components request an invoice from the contractor for any AP amount remaining unliquidated due to non-receipt of an invoice or billing within 180 days from the date of acceptable final contract performance. DISA performs a monthly analysis over Aged AP for balances that are aged over 365 days.

In October 2018, DISA GF transitioned its GL accounting system from the Washington Headquarters Services (WHS) Allotment and Accounting System (WAAS) to DAI. After the conversion, DISA GF encountered several system issues related to activity posting in an incomplete and inaccurate manner. These issues are described in detail in Section V.E, *Unmatched Accounts Payable, Expense, and Related Budgetary Transactions*; Section V.F, *Defense Agencies Initiative Interface and Lack of Data Element Issues Relating to Wide Area Workflow and Defense Travel System*; and Section V.G, *Lack of Timely Validation of Undistributed Journal Vouchers*. The remediation efforts related to these systematic issues are currently ongoing. Due to the GL conversion and DAI's data limitations, DISA's service organization, on behalf of DISA, processes payments without the appropriate data and project elements, which can result in unmatched and undistributed transactions.

Condition: As of September 30, 2021, DISA's AP balance aged over 180 days totaled $2.1 million, which is 29% of the total AP balance recorded in DAI. These aged balances may be invalid due to conversion errors from WAAS to DAI or unreconciled unmatched activity that remain uncorrected and do not represent a true liability.

Cause: Due to data conversion challenges, aged uncorrected AP balances exist in DAI. DISA did not appropriately design a process or control to identify and post a correcting entry related to its invalid AP balances. Unmatched and undistributed transactions create challenges for DISA management to appropriately reconcile, track, and monitor the validity of AP balances.

Effect: Without effective processes and controls in place to monitor and correct invalid AP balances, there is an increased risk that DISA's AP line item on the Balance Sheet is misstated. As of September 30, 2021, DISA's trial balance (TB) included approximately $2.1 million in liabilities that were no longer valid.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement and document a process to research, identify, and correct systematic interface issues in DAI in a timely manner in order to reduce the overall undistributed and unmatched transaction balances.
2. Implement procedures to review and monitor liability balances timely for validity and conformation with Federal requirements.
3. Implement and document a process to research, identify, and correct Aged AP balances in a timely manner.

2. Unrecorded Estimated Accounts Payable

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 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.

The DISA GF records expenses using its GL system, DAI, based on the receipt of invoices from vendors and/or bills from their intragovernmental trading partners. Due to delays in the receipt of these invoices and bills, DISA prepares a quarterly accrual estimate to account for the receipt of goods and/or services not yet invoiced or billed to DISA. This methodology assumes that all contracts/funding agreements burn at approximately the same rate each quarter and that DISA will expend 91% of the amount obligated. DISA is responsible for confirming that all of the applicable expenses and appropriate estimates are accurately recorded in its financial statements.

Condition: DISA reported an estimated AP amount that was not complete or accurate for the period ended September 30, 2020. DISA identified approximately 182 projects for which it received goods or services, where $33 million had not been recorded in the accrual JV.

Cause: The initial set-up and execution of DAI and DISA's application of this accrual methodology caused certain estimated accrual balances to be excluded from the JV that DISA used to record its estimated AP balance. DISA did not design or implement appropriate controls to ensure the estimated AP balance reported on its financial statements, through the JV, agreed to the balance of the estimated AP in DAI. DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. The Risk Assessment and Entity Control Environment does not include testing controls to ensure they address the applicable financial reporting objectives. As a result, updates to the internal control program will help to identify and remediate control gaps.

Effect: Due to the lack of internal controls, DISA reported a misstatement on its Balance Sheet AP Line Item and SNC Gross Cost line item as of September 30, 2020. DISA's AP beginning balance on October 1, 2020 was understated by approximately $33 million and, without effective controls in place to confirm the estimated AP amounts, there is an increased risk for material misstatements in subsequent quarters.

Recommendations: Kearney recommends that DISA perform the following:

1. Review and analyze automated reports within DAI to ensure the expected amounts agree to the estimated accrual JV.
2. Update the analysis and include the necessary updates to internal controls and procedures to ensure that all estimated AP accruals are recorded and captured accurately on DISA's financial statements.
3. Update and document the SOP and/or narratives of the estimated accrual JVs to ensure consistency of the application of controls and methodology.

3. Lack of Accounts Payable/Expense Accrual 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 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 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: The DISA GF records estimated AP/Expenses based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement. DISA calculated this estimate by reviewing its history of completed contracts and the payments recorded compared to contractual ceiling values. DISA has not successfully implemented a process or control to analyze subsequent vendor invoices paid to determine which FY the underlying goods and services were received. Such an analysis would provide a validation of whether the estimated AP reported at period-end was accurate.

Cause: DISA has not developed and successfully executed a process to validate its AP accrual estimates through a review of documentation that supports when the goods or services were actually received. In FY 2021, DISA initiated a process to attempt to perform this validation. DISA's validation process only recalculated the estimated AP balance in the prior period. This methodology was ineffective because DISA did not use the actual invoices from the subsequent period to compare to and validate the accuracy of the estimated AP balance as of September 30, 2020.

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. Additionally, performing the analysis on the accrual population, instead of the subsequent expense or disbursement population, increases the risk that subsequent disbursements that should have been accrued are not being properly accounted for.

Recommendations: Kearney recommends that DISA perform the following:

1. Continue to execute its plan to perform an accrual validation through the review of subsequent vendor invoices. DISA should compare actual vendor invoice amounts to the estimated AP balance to assess the reasonableness of the estimate.
2. Reassess the reasonableness of the AP estimation technique and its underlying assumptions based on the results and conclusion of the validation effort.

4. Lack of Cut-Off Controls Related to Accounts Payable/Expense and Accounts Receivable/Revenue

Background: As a DoD agency, DISA is required to prepare annual financial statements in accordance with GAAP, as established by FASAB. When a Federal agency prepares financial statements, a methodology for estimating amounts owed, but not yet invoiced, must be established. The estimate ensures expenses are recorded in the correct period in accordance with GAAP. Many of DISA's expenditures are passed on to its customers creating revenue, which impacts both AR and Revenue line items.

As described in detail in Section III.A.3, *Lack of Accounts Payable/Expense Accrual Validation*, DISA has not developed and successfully executed a process to validate that its AP accrual estimate is accurate. When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for these goods are not available when financial statements are prepared, the amounts owed should be estimated. DISA management is responsible for ensuring all transactions are accounted for in the proper period through an accrual and subsequent period review of activity.

In October 2018, DISA GF transitioned its GL accounting system from WAAS to DAI. After the conversion, DISA GF encountered several system issues related to activity posting in an incomplete and inaccurate manner. These issues are described in detail in Section V.E, *Unmatched Accounts Payable, Expense, and Related Budgetary Transactions*; Section V.F, *Defense Agencies Initiative Interface and Lack of Data Element Issues Relating to Wide Area Workflow and Defense Travel System*; and Section V.G, *Lack of Timely Validation of Undistributed Journal Vouchers*. The remediation efforts related to these systematic issues are currently ongoing.

Condition: DISA does not perform a review of subsequent period disbursements and collections to determine if activity posted in the following FY should be accounted for in the current FY through a JV adjustment or if the activity was properly accounted for through the estimated accrual. Additionally, DISA does not fully assess the impact of transactions that have not interfaced or posted into DAI when asserting to the existence and completeness of its Expense, Revenue, AP, AR, and related Budgetary Account balances.

Cause: Had DISA performed a risk assessment over all the relevant financial statement assertions related to AP, Expense, AR, and Revenue, it could have better designed and implemented controls to address the need to analyze activity cut-off. A significant number of transactions are not processed into DAI and are considered undistributed and/or unmatched. Transactions within DAI are voided and canceled in order to correct unmatched transactions, which can cross FYs. Until the issues identified in Section V.E, *Unmatched Accounts Payable, Expense, and Related Budgetary Transactions*, and Section V.G, *Lack of Timely Validation of Undistributed Journal Vouchers*, are addressed, a review of subsequent period activity would be ineffective.

Effect: Without review of subsequent period activity, DISA cannot perform proper cut-off procedures or support that the amounts reported on Gross Costs and revenues on its SNC and that AP and AR on its Balance Sheet are complete and exist or occurred. There is an increased risk of material misstatements reported on the SNC and Balance Sheet.

Recommendations: Kearney recommends that DISA perform the following:

1. Design and implement internal controls to perform a risk assessment that links risks to the financial reporting objectives, financial statement lines, and related assertions.
2. Develop and perform a review of transactions that occur in the following FY to determine if they should be accounted for in the current period and determine if an adjusting entry is needed.
3. Update and document the SOP and/or narratives to include adequate cut-off controls.

B. Expense Samples Not Supported

Background: DISA participates in various types of transaction activities that generate expenses for the agency which are reported on the SNC. These expenses are generated primarily through the costs to provide information system services to various trading partners, as well as the standard, operational expenses incurred throughout the FY. The DISA GF records expenses based on cash payments and estimated expenses based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement through an accrual JV. DISA calculated this estimate by reviewing its history of completed contracts and the expenses recorded compared to contractual ceiling values. The DISA GF expenses recorded for the period ended September 30, 2021 totaled $4.2 billion. DISA management is responsible for ensuring expense transactions are recorded in the correct period for the correct amount and that appropriate documentation is readily available to support the transaction.

As part of the procurement process, DISA obtains documentation for services received from the vendor. This invoice type varies, as it is dependent on whether the transaction is between another Government agency or a commercial vendor. Each source of intragovernmental transaction and billing on behalf of the customers is processed by DISA's service organization and collected on behalf of the performing agency.

Condition: In response to noted exceptions, a pilot sample of 25 GF Expense transactions was selected for review. When testing to verify if the expenditure was recorded in a timely manner, we identified 14 exceptions totaling $6.6 million. Several exceptions related to expenses recorded by DISA in the current year; however, the supporting documentation provided indicated the expense was incurred in a prior year. Additional exceptions were noted for transactions in which DISA was not able to provide sufficient audit evidence to support in which period the expense was incurred.

Cause: DISA's service organization does not maintain appropriate evidence to support the payments made on its behalf. DISA does not have controls in place to retain documentation of when expenses were incurred. As noted in Section V.G, *Lack of Timely Validation of Undistributed Journal Vouchers*, a significant number of payments are not recorded in DISA's financial accounting system timely, and DISA relies on payments to post expenses in its accounting system.

Effect: DISA management was unable to provide the applicable invoice and billing documentation to support the validity, accuracy, and occurrence for 14 of 25 sampled expense transactions reported on the FY 2021 financial statements. Without sufficient and appropriate audit evidence for underlying expenses, Kearney is unable to provide a basis for conclusion on the amounts reported in DISA's Gross Cost line (SNC) and AP (Balance Sheet).

Recommendations: Kearney recommends that DISA perform the following:

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

4. Update and document new policies and procedures relating to the expense support within the SOP to ensure applicable understanding and requirements are consistent across the agency.

C. Lack of Receipt and Acceptance

1. Lack of Intragovernmental Payment and Collection System Receipt and Acceptance Process

Background: The DISA GF 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 Intragovernmental Payment and Collection (IPAC).

The IPAC system allows intragovernmental entities to transfer funding between one another as reimbursement for goods and services provided. This system is 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 its service organization, and DISA allows its service organization to accept and create payments on its behalf. DISA retains responsibility for ensuring it has sufficient appropriate documentation to support the payment.

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

Cause: DISA has engaged a service organization to process 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 receipt and acceptance. DISA has not developed and implemented a process to obtain post-payment evidence of receipt.

Effect: Without appropriate receipt and acceptance of trading partner activity, DISA is not able to confirm the accuracy, validity, or timeliness of its intergovernmental transactions (both Gross Costs and AP). As a result, DISA may have misstatements in its Gross Costs and AP in the period it receives goods and services, as well as additional misstatements in the subsequent period when the Gross Costs and AP are recorded. DISA is at increased risk of paying trading partners for goods or services that does not conform with the terms of its agreements or that DISA has not received.

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

1. Design, track, and implement G-Invoicing and ensure the process is mitigating the issues identified in the condition accordingly.
2. Design and implement a process to validate and document receipt and acceptance of goods/services provided by intragovernmental trading partners.
3. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), Memorandums 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.
4. Implement controls and coordinate with its service organization personnel to confirm the valuation and existence of expense transactions prior to the payment delivery to DISA's customer agencies.

2. Lack of Documentation Reflecting Wide Area Workflow Receipt and Acceptance

Background: The DISA GF procures various telecommunication 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 Workflow (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 System and Organization Controls (SOC) 1® report that is completed each FY in order to assess the specific systematic controls, as well as to identify the complementary user entity controls (CUEC) that the user entity (i.e., DISA) has the responsibility to implement to support WAWF transactions. As described in ***Exhibit 2*** and Section I.A, *Incomplete Complementary User Entity Controls 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 Contracting Officer's Representatives (COR) who approve orders within WAWF, which initiates payment. 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 and 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 can also upload 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, ensuring the transaction is accurate and valid, 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 and approved by the COR prior to certification and payment. DISA has not implemented a consistent process to document evidence of the review of the invoice, receiving report, and contract/purchase request. Additionally, DISA has not implemented the CUECs from the WAWF SOC 1® report regarding obtaining and maintaining sufficient support to document evidence of receipt and acceptance of goods and/or services.

Cause: DISA management places reliance on the general functionality of the WAWF environment in order to perform a systematic receipt and acceptance of the transactions. The COR within DISA and its customers do not have a consistent methodology to retain the supporting documentation of its concurrence, in having received the specific goods/services as noted by their systematic approval. DISA has chosen not to outline or document a policy in place to emphasize the COR's retention of supporting documentation per the WAWF SOC 1® report, which is documented as a key responsibility of DISA. DISA has not developed an effective remediation approach, as it relates to the WAWF SOC 1® report, 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 receipt and acceptance within WAWF, there is an increased risk that DISA has not received the goods or services described in the vendor invoice. CORs who are responsible for receipt and acceptance 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 receipt and acceptance 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. 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 perform the following:

1. Design and implement a standardized process to perform a three-way match between the invoice, receiving report, and contract/purchase request in order to validate the documentation of the receipt and acceptance 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 receipt and acceptance 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.

D. Lack of Operating Effectiveness Relating to the Certification and Documentation of Travel Expense

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

In order to become an authorized Travel Certifying Officer (CO), the appointee must complete the necessary trainings and requirements, as well as sign the Department of Defense (DD)-577, *Appointment/Termination Form*. Officials within the agency/organization with the appointing authority approve and sign DD-577s. The CO/Approving Official (AO) logs into DTS to review and approve the traveler's submission package after the traveler documents and submits all of his/her applicable receipts within DTS.

DISA and its service organization are responsible for maintaining the applicable documentation to support the approval authority, as well as the travel expenses incurred throughout the FY. Through DISA's remediation efforts, DISA management developed a CAP, which highlighted the development and maintenance of a repository of DD-577s to better support the current CO/AO's approving the DTS actions, but it had not fully executed those procedures in FY 2021. DISA continues to work internally on its DTS internal controls and is responsible for monitoring its service organization to provide the necessary support of the travel expense transactions specific to DISA.

Condition: DISA did not fully implement processes to maintain appropriate documentation and DTS controls to support expense transactions. DISA was unable to execute the following:

- Two of 78 samples did not have valid DD-577 supporting documentation
- Seventy of 78 samples did not have proper documented evidence of approval or timely approval of 63 of 78 DTS travel orders and 45 of 78 DTS travel vouchers
- Sixteen of 78 samples were not recorded in the proper period
- Five of 78 samples did not have documentation provided to support the sample amount.

Cause: In FY 2021, DISA developed a CAP, but it had not fully executed the procedures to remediate the finding. Although DISA created a repository for its DD-577s, the control environment did not yet have the necessary documentation for all the appropriate approval designations of the AOs/COs. DISA also did not implement internal controls to monitor that the travel approvals were performed in a timely manner and all relevant AO approval stamps were documented within DTS. DISA did not perform testing or an appropriate review to determine that the applicable period and recording of the gross costs were performed in a timely manner and the expenses were posted in the proper period.

Effect: Without appropriate review of the travel expenses and the appliable DD-577s, there is an increased risk that DISA's travel expenses are misstated and that there could be transactions that do not have the appropriate approval authority. DISA is not able to adequately support a timely and appropriate review over the travel process. As a result, ineffective controls or a lack of control objectives may result in the travel approvals being inaccurate.

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

1. Continue to implement and test the CAP remediation efforts in place to further develop the GF's travel control environment.
2. Further develop and monitor a consistent process for timely approvals of travel expenses and ensure the necessary supporting documentation for the various types of transactions are adequately maintained and clearly documented within DTS, as well as for audit requests.
3. Continue to retain and maintain the applicable DD-577s for DISA's CO/AO, as well as ensure that the process to become a CO or AO is completed timely with the proper approval documentation.
4. Ensure there is an appropriate understanding between DISA and its service organization, relating to the responsibilities of processing travel transactions, retaining documentation to be readily available for request, and updating the necessary processes noted within the SOP.

IV. Budgetary Resources *(Repeat Condition)*

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

A. Invalid Unfilled Customer Orders Without Advance Transactions
B. Invalid Undelivered Orders Transactions
C. Untimely Unfilled Customer Order Transactions
D. Untimely Undelivered Orders Transactions
E. Inaccurate Recoveries of Prior-Year Unpaid Obligations
F. Unsupported Appropriations

A. Invalid Unfilled Customer Orders Without Advance Transactions

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

The DISA GF reported approximately $159.4 million in UCOs Without Advance on its June 30, 2021 TB. The account balance is supported by a subsidiary ledger that details information such as the fund, document number, order amount, and transaction date, among other unique identifying details for each UCO balance. The DISA GF implemented a control to record an adjustment for dormant UCOs, in which DISA would post an on-the-top JV to reduce the obligation balance by the amount identified as aged UCOs as of June 30, 2021. Dormant

UCOs are identified by UCO balances as uncollected orders aged greater than 365 days and the obligation date is greater than 18 months.

The GF UCO dormant control is limited by unmatched transactions and undistributed transactions. Unmatched transactions occur for a variety of reasons, such as truncated document numbers, payment amounts being higher than the project's AP balance, and typos (i.e., "0" versus "O"). Additionally, DISA indicated that certain systems do not interface correctly into DAI and drop key data elements required to pass validation checks and match appropriately in DAI. Undistributed transactions include those which have not been distributed to the agency's GL system.

Condition: DISA did not have sufficient controls in place to ensure invalid UCOs Without Advance are not reported on the Spending Authority from Offsetting Collections line of the Statement of Budgetary Resources (SBR). While a control was put in place for June 30, 2021 to record a JV for dormant UCOs Without Advance, not all dormant balances for physically completed contracts were identified and liquidated as of June 30, 2021 and the issues with unmatched transactions and undistributed amounts affect the GF UCO Without Advance population. For example, UCO balances exist in DISA's population that should have been impacted by unmatched and undistributed transactions that were not properly recorded in DISA's accounting system. The accurate recording of this activity is needed to confirm the validity and accuracy of the UCO balances. DISA has identified unmatched and undistributed transactions that are not being posted and, therefore, cannot be addressed by the control.

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed if they cannot be matched to an outstanding payable and obligation. DISA indicated that certain disbursing offices do not interface specific data elements, such as CLIN and Accounting Classification Reference Number (ACRN). DISA has not yet identified all root causes of unmatched disbursements; see the documented finding at Section V.E, *Unmatched Accounts Payable, Expense, and Related Budgetary Transactions*.

DISA has not developed a process to ensure that all of its financial systems properly interface to ensure transactions are recorded timely. The Undistributed JV includes, on average, more than 3,500 transactions each month from approximately 35 different source systems for which transactions are processed but are not making it into DISA GF's DAI GL system timely; see the documented finding at Section V.G, *Lack of Timely Validation of Undistributed Journal Vouchers*.

Without resolving the issues related to unmatched DAI transactions and undistributed JVs' impact on the GF UCO without Advance population, DISA is unable to confirm the validity and accuracy of UCO balances.

DoD FMR, Volume 3, Chapter 8, Section 081606 requires that funds holders assess the validity of the open balances by determining, as applicable, whether the requirement is still valid and accurate, future work will be conducted on the contract or UCO, future disbursements will be required to liquidate the dormant balance, and there is sufficient and readily available key supporting documentation (KSD) to justify the remaining balance.

Effect: Because DISA cannot account for the impact of unmatched and undistributed transactions, it cannot reconcile and assert to the completeness, accuracy, and validity of its UCO population.

Recommendations: Kearney recommends that DISA perform the following:

1. Identify unmatched transactions and undistributed amounts affecting the UCO Without Advance population.
2. Update existing policies to ensure that funds holders are adequately assessing the validity of the open UCO balances and liquidate invalid UCOs, when possible.
3. Implement policies, or update existing policies, which require Procurement Services Directorate (PSD) to process contract actions timely once all goods and services have been provided to the customer.
4. Implement procedures to determine the impact of the unmatched and undistributed transactions on the GF UCO Without Advance population.

B. Invalid Undelivered Orders Transactions

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

The DISA GF reported more than $2.0 billion in UDOs on its June 30, 2021 TB. 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.

The DISA GF implemented a control to record an adjustment for dormant UDOs, in which DISA would post an on-the-top JV to reduce the obligation balance by the amount identified as aged UDOs as of June 30, 2021. Dormant UDOs are identified by UDO balances as uncollected orders aged greater than 365 days and the obligation date is greater than 18 months.

The GF UDO dormant control is limited by unmatched transactions and undistributed transactions. In October 2018, DISA GF transitioned its GL accounting system from WAAS to DAI. After conversion, DISA GF ran into several system issues related to activity posting in a complete and accurate manner. These issues are described in detail in Section V.E, *Unmatched Accounts Payable, Expense, and Related Budgetary Transactions*, and Section V.G, *Lack of Timely Validation of Undistributed Journal Vouchers*. The remediation efforts related to these systematic issues are ongoing.

Condition: DISA did not have sufficient controls in place to ensure invalid UDOs are not reported on the New Obligations Incurred line of the SBR. While a control was put in place for June 30, 2021 to record a JV for dormant UDOs, not all dormant balances for physically completed contracts were identified and adjusted as of June 30, 2021 and the issues with unmatched transactions and undistributed amounts affect the GF UDO population. For example, UDO balances exist in DISA's population that should have been impacted by unmatched and undistributed transactions that were not properly recorded in DISA's accounting system. The accurate recording of this activity is needed to confirm the validity and accuracy of the UDO balances. DISA has identified unmatched and undistributed transactions that are not being posted and, therefore, cannot be addressed by the control.

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed if they cannot be matched to an outstanding payable and obligation. DISA indicated that certain disbursing offices do not interface specific data elements, such as CLIN and ACRN. DISA has not yet identified all root causes of unmatched disbursements; see the documented finding at Section V.E, *Unmatched Accounts Payable, Expense, and Related Budgetary Transactions*.

DISA has not developed a process to ensure that all of its financial systems properly interface to ensure transactions are recorded timely. The Undistributed JV includes, on average, more than 3,500 transactions each month from approximately 35 different source systems for which transactions are processed but are not making it into DISA GF's DAI GL system timely; see the documented finding at Section V.G, *Lack up Timely Validation of Undistributed Journal Vouchers*.

Without resolving the issues related to unmatched DAI transactions and undistributed JVs' impact on the GF UDO population, DISA is unable to confirm the validity and accuracy of UDO balances.

In previous years, DISA management indicated that dormant balances remain open and reported in the financial statements due to the lack of effective reviews for validity by funds holders, delays in contract closeout processing by DISA's PSD, and delays in the Defense Contract Audit Agency (DCAA) audits. DISA officials indicated that they were reluctant to deobligate individual amounts in the detailed accounting records until these steps have been completed. Although DISA had developed a contract closeout accrual to accrue estimated deliveries during contract closeout, DISA did not have a process in place to estimate invalid UDOs in this status in order to record a year-end adjustment for financial reporting purposes.

Effect: Because DISA cannot account for the impact of unmatched and undistributed transactions, it cannot reconcile and assert to the completeness, accuracy, and validity of its UDO population.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement procedures to determine the impact of the unmatched and undistributed transactions on the GF UDO population.
2. Update existing policies to ensure that funds holders are adequately assessing the validity of the open UDO balances and deobligate invalid UDOs, when possible.
3. 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.
4. To the extent that invalid UDOs cannot be deobligated based on contractual or administrative matters, develop and implement a process to estimate invalid UDOs to determine whether a temporary adjustment is required for year-end financial reporting purposes to supplement the contract closeout accrual.

C. Untimely Unfilled Customer Orders Transactions

Background: UCOs 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. The DISA GF reported approximately $159.4 million in UCOs Without Advance on its June 30, 2021 TB. DISA is responsible for establishing controls to ensure UCOs Without Advance entered into the financial management system timely.

Condition: DISA does not have controls in place to ensure that UCOs are entered into the financial management system within 10 days of execution of the obligating document in accordance with DoD FMR, Volume 3, Chapter 8, Section 080303. In past audits, it was determined there were UCOs not entered into the financial system within 10 days of execution of the obligating document. During walkthrough procedures, DISA noted that if it does not receive an obligation within 10 days of award, an e-mail is retained in DAI to annotate the obligation was received after 10 days. However, DISA did not identify any new internal control activities that would ensure that obligations are recorded in a timely manner.

As documented in Section IV.A, *Invalid Unfilled Customer Orders Without Advance Transactions*, without resolving the issues related to unmatched DAI transactions and undistributed JV impact on the GF UCO population, DISA is unable to confirm the validity and accuracy of UCO balances.

Cause: DISA did not have effective transaction-level control procedures to ensure customer orders were recorded in the financial management system in a timely manner. DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives. Such risk assessment and test procedures may have enabled DISA to identify the necessary control activities related to recording obligations timely. Updates and improvements to the internal control program will help to identify and remediate control gaps.

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

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

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

1. Update its internal control program so that:
   a. The risk assessment is linked to financial statement lines and assertions.
   b. The control testing is designed to address the risks identified in the risk assessment and the financial reporting objectives.
2. Implement controls at the obligation level to ensure that customer orders are recorded in a timely manner to support funds control.
3. Develop and implement a process to monitor the execution of DISA policies and procedures related to establishing customer orders.

D. 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 GF reported approximately $2.0 billion in UDOs on its June 30, 2021 TB. DISA is responsible for establishing controls to ensure UDOs are entered into the financial management system timely.

Condition: DISA does not have controls in place to ensure that obligations are entered into the financial management system within 10 days of execution of the obligating document. If DISA does not receive an obligation from the mission partner within 10 days of award, an e-mail was retained in DAI to annotate the obligation was received after 10 days. However, DISA did not identify any new internal control activities that would ensure that obligations are recorded in a timely manner.

As documented in Section IV.B, *Invalid Undelivered Orders Transactions*, without resolving the issues related to unmatched DAI transactions and undistributed JV impact on the GF UDO population, DISA is unable to confirm the validity and accuracy of UDO balances.

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. DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives. Such risk assessment and test procedures may have enabled DISA to identify the necessary control activities related to recording obligations timely. Updates and improvements to the internal control program will help to identify and remediate control gaps.

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 of 1995.

Recommendations: 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.
2. Update its internal control program so that:
   a. The risk assessment is linked to financial statement lines and assertions.
   b. The control testing is designed to address the risks identified in the risk assessment and the financial reporting objectives.

E. Inaccurate Recoveries of Prior-Year Unpaid Obligations

Background: Recoveries of unpaid obligations consist of USSGL Account 487100, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*, and USSGL 497100, *Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries*. These accounts represent recoveries during the FY resulting from downward adjustments to obligations or delivered orders originally recorded in a prior FY. Recovered budget authority is presented on the SBR Line 1071, *Unobligated Balance from Prior Year Budget Authority, net*. DISA is responsible for developing policies and procedures to ensure that budgetary activity is accurately reported in accordance with USSGL guidelines.

The DISA GF reported $95 million in Recoveries, to USSGL 487100, on its June 30, 2021 TB. The account balance is supported by transaction-level detail that contains information such as document number, project number, and amount, among other identifying details.

DISA developed a JV process starting in Q2 of FY 2021 to remove Inaccurate Recoveries of Prior-Year Unpaid Obligations resulting from DAI posting logic issues. The Inaccurate Recoveries of Prior-Year Obligations are identified from the UDO report identifying matching transactions to General Ledger Account Codes (GLAC) 4871 and 4881.

Condition: DISA reported $19.9 million in Downward Adjustments of Prior-Year Unpaid Undelivered Orders, Obligations – Recoveries on its June 30, 2021 TB that were not actually current-year recoveries of a prior-year obligation. The error related to recoveries from a prior year that were not recorded timely.

DISA was not able to timely provide sufficient audit evidence to support $18.8 million of Downward Adjustments of Prior-Year Unpaid Undelivered Orders, Obligations – Recoveries on its June 30, 2021 TB.

Cause: DISA did not have effective control procedures to ensure that transactions recorded to USSGL 487100 were properly supported downward adjustments to prior-year obligations and not administrative funding changes. DISA also did not have effective control procedures to ensure that transactions recorded in USSGL 487100 were de-obligations from the current year. DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives. Such risk assessment and test procedures may have enabled DISA to identify the necessary control activities related to recording obligations timely. Updates and improvements to the internal control program will help to identify and remediate control gaps.

Effect: SBR Lines 1071, *Unobligated balance from prior year budget authority, net* (discretionary and mandatory), and 2190, *New obligations and upward adjustments (total)*, were misstated by $19.9 million (known) and $18.8 million (potential) as of June 30, 2021.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement policies to ensure that all transactions recorded to USSGL 487100 reference obligations recorded in a prior FY and are recorded timely.
2. Perform a quarterly review of USSGL 487100 transactions to ensure that any transactions are produced by accounting events (i.e., contractual de-obligation and not administrative fund changes).
3. Update its internal control program so that:
   a. The risk assessment is linked to financial statement lines and assertions.
   b. The control testing is designed to address the risks identified in the risk assessment and financial reporting objectives.

F. Unsupported Appropriations

Background: An appropriation is a type of budget authority that authorizes obligations and outlays using general funds, special funds, or trust funds that are provided in appropriations acts or other laws. As a Defense agency, DISA does not receive direct appropriations from Congress. DISA's authority to incur obligations is received through an allotment of funds appropriated to the DoD, which is accomplished on a Funding Authorization Document (FAD), issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]). It is the responsibility of DISA management to ensure all appropriations on the SBR Line 1290, *Appropriations (discretionary and mandatory)*, are supported by a FAD.

The CMR is created by DISA's service organization to provide TI-97 agencies with individual FBWT balances. DISA's service organization creates the CMR by compiling TI-97 agencies' disbursement and collection data from HQARS and DCAS to create the CMR. The CMR is populated using balances from DDRS-B, which are from the EFD Comptroller file. The balances in DDRS-B flow into DDRS – Audited Financial Statements (AFS), which populate the SBR. While DISA's service organization prepares the CMR, it is the responsibility of DISA management to ensure the accuracy of the CMR.

Condition: DISA reported $5.2 million of appropriations on its June 30, 2021 SBR that were not supported by a FAD in the 0100 Operations and Management (O&M) Fund. The amount related to the appropriations at the Level 4 Unallocated category, which were unsupported as unallocated on DISA's CMR. At Level 4 Unallocated, the funds have been assigned to an ODO; however, a FAD has not yet been issued.

Cause: DISA and its service organization have not designed or implemented a methodology to ensure that all amounts from the CMR are supported by underlying documentation and to determine the financial reporting impact of the CMR Reconciling Items to DISA's financial statements for financial reporting. DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives. Updates and improvements to the internal control program will help to identify and remediate control gaps.

Effect: Without a FAD for the appropriations reported in the CMR, DISA's financial statements may be misstated. SBR Line 1290, *Appropriation (discretionary and mandatory)*, was overstated by $5.2 million as of June 30, 2021. FBWT was potentially overstated by $5.2 million as of June 30, 2021 as Unallocated Funds in the CMR represents funds appropriated at the TAS level which have not been allocated down to a specific ODO yet. There is also an increased risk that this could cause a violation of the Antideficiency Act, as DISA's accounting records would indicate that more budgetary resources were available to it for obligation than was actually the case.

Recommendations: Kearney recommends that DISA perform the following:

1. Update its internal control program so that:
   a. The risk assessment is linked to financial statement lines and assertions.
   b. The control testing is designed to address the risks identified in the risk assessment and financial reporting objectives.
2. Develop and implement controls to ensure all appropriations are supported by a FAD.
3. Develop and implement controls to remove unallocated appropriations on the CMR from the SBR and FBWT.

V. Financial Reporting *(New Condition)*

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

A. Untimely Issuance of Requested Audit Documentation and Financial Statement Package
B. Accounts Payable Federal/Non-Federal Classification
C. Abnormal Accounts Payable Balance Recorded on the Quarters 1-2 Balance Sheets
D. Lack of Documentation and Approval of Defense Information Systems Agency Management's Assessments Related to its Reporting Entity and Applicability of Insurance Programs per the Statement of Federal Financial Accounting Standards Requirements
E. Unmatched Accounts Payable, Expense, and Related Budgetary Transactions
F. Defense Agencies Initiative Interface and Lack of Data Element Issues Relating to Wide Area Workflow and the Defense Travel System
G. Lack of Timely Validation of Undistributed Journal Vouchers
H. Unreconciled Differences between General Fund to Working Capital Fund Expense, Accounts Payable, and Related Budgetary Accounts

A. Untimely Issuance of Requested Audit Documentation and Financial Statement Package

Background: As a part of the financial statement audit of DISA GF, DISA management will submit Provided by Client (PBC) documentation regularly throughout the course of the audit. Because of the nature of a financial statement audit, DISA management receives specific supporting documentation requests at FY-end to substantiate the balances reported within the financial statements as of September 30, 2021 and to support critical year-end procedures, which are necessary for DISA to obtain an opinion on its financial statements. DISA is responsible for preparing and maintaining the documentation in order to be readily available for auditors and applicable stakeholders.

DISA GF's financial statements are compiled by its service organization. When the financial statement compilation process is initiated, the DISA GF DDRS-B TB is imported into DDRS-AFS. Once received, the Defense Agencies Audited Financial Statements Branch collects, consolidates, and identifies all ODOs' GF financial activity for the Defense agencies under their purview and reports the information within DDRS-AFS. DISA GF utilizes the DDRS-AFS information to complete the year-end financial statement package, to include the draft Agency Financial Report (AFR) with Management's Discussion and Analysis (MD&A), financial statements, footnotes, and Other Information (OI). Historically, DISA GF's financial statements have included both a high volume and material amount of on-top JV adjusting entries posted in DDRS-B and DDRS-AFS. In order to determine what comprises the ending balances reported in DDRS-AFS, DISA creates a crosswalk from its GL system, DAI, to DDRS-AFS. DISA relies on its service organization to provide the JV listings out of DDRS-B and DDRS-AFS to complete the crosswalk. DISA management is responsible for performing a quality control (QC) review of the files prepared by its service organization.

OUSD(C) has mandatory due dates for the submission of year-end documents. These due dates have been set to allow agencies to meet the schedule requirements of their respective financial statement audits. The DoD OIG establishes contractual deadlines for DISA's external auditors, including requiring the draft audit report, with all underlying supporting working papers, including the aforementioned working papers related to the financial statements, footnotes, and related audit documentation, be completed by deadlines at the end of October each FY.

Condition: DISA GF, in coordination with its service organization, was unable to provide the applicable audit documentation requests in time for year-end testing procedures, which would be necessary for DISA GF to obtain an audit opinion. Specifically, complete listings of JVs and the financial statement reconciliation to support the final reported amounts on the AFR were not provided in time for year-end testing procedures to be performed in time for contractual audit deliverables. The testing and financial reporting portion of the audit was scheduled to conclude on October 27, 2021. See below for the financial reporting audit documentation requests that were either not received or partially received as of October 27, 2021:

- September 30, 2021 Financial Statement Reconciliation Crosswalk
- September 30, 2021 DISA GF Journal Voucher (JV) Log.

Cause: DISA's current procedures and dependencies on its service organization contribute to its inability to timely and sufficiently provide documentation in a reasonable timeframe for financial reporting and audit timelines. The OUSD(C) schedule does not allow sufficient time for review and performance of testing procedures by external component auditors of necessary audit documentation in time for draft audit report due dates. Additionally, the process of posting a high volume of material adjusting entry JVs into DDRS-B and DDRS-AFS, rather than ensuring entries are posted in DISA's GL system in time for year-end reporting, contribute to the need to perform testing procedures over year-end JVs for the draft audit report.

Effect: Without readily available documentation, 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. Delayed PBC items which were provided shortly before, or after, that date did not allow sufficient time to complete required audit procedures.

DISA management has an increased risk that the lack of controls and processes in place to adequately substantiate whether the balances reported within the DISA GF's financial statements are materially correct and presented in accordance with GAAP.

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

1. Continue to develop processes and facilitate the delivery of critical audit documentation requests made by the external auditor in line with quarterly and year-end financial reporting timelines.
2. Continue to coordinate and update the SOP on financial reporting year-end policies in order to ensure that multiple personnel resources have the ability to perform the required tasks and timely execute year-end procedures.
3. Develop and implement processes which ensure timely posting of accounting entries into the GL system, DAI, and reduce the volume of adjusting entry JVs entered on-top via DDRS-B and DDRS-AFS.
4. Coordinate with its service organization and OUSD(C) to establish processes and controls for completing year-end financial reporting documentation in a timelier manner to be available for external audit review and testing.

B. Accounts Payable Federal/Non-Federal Classification

Background: As a DoD agency, DISA is required to prepare quarterly and annual financial statements in accordance with GAAP, as established by FASAB. FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 1 requires that Intragovernmental assets and liabilities should be reported separately from governmental assets and liabilities. This requirement applies to all of the selected assets and liabilities. DISA is required to present liabilities as Federal and Non-Federal on the Balance Sheet of its financial statements.

Condition: A significant number of payments processed on behalf of DISA do not systematically interface into DAI, DISA's GL accounting system, referred to as undistributed transactions. A JV is required to account for undistributed transactions attributed to DISA. This JV decreases the AP and FBWT balance on DISA's financial statements and requires allocation to the Federal and Non-Federal AP line items. At the time the JV is posted, DISA does not have the underlying transaction-level detail which would indicate if the transactions related to a Federal or Non-Federal vendor payment.

As of March 31, 2021, the time of this finding, DISA's undistributed transactions totaled approximately $128.4 million; as of June 30, 2021, DISA's undistributed transactions totaled approximately $78.2 million. DISA relies on its AP accrual estimate to estimate the undistributed AP Federal/Non-Federal allocation. DISA does not have a process in place to validate the accuracy of either estimate; therefore, its method to allocate undistributed transactions is unsupported. At the time of this finding, DISA was working with its service organization to determine the most accurate allocation of the undistributed disbursement JV amount in order to properly reflect the Federal/Non-Federal AP line items at year-end for FY

2021. As of the time of this report, Kearney was unable to obtain evidence that the FY 2021 year-end Federal/Non-Federal AP line items were reported accurately.

Cause: Systematic interface issues in DAI cause payments to remain undistributed and outside of DISA's GL accounting system, DAI, as of a reporting period. DISA has not implemented a process to research and correct these interface issues in a timely manner. Underlying transaction-level detail is not readily available for the undistributed JV at the time it is posted; therefore, DISA is unable to identify and support its Federal/Non-Federal AP balances. In FY 2021 Q3, DISA implemented a lookback of its prior-period undistributed balances in order to estimate the Federal/Non-Federal allocation.

Effect: When material undistributed transactions exist, DISA cannot assert to the existence or completeness of its FY 2021 AP with the public and intragovernmental line items on its Balance Sheet. Due to the lack of transaction-level detail at the time the undistributed JV is posted to DISA's financial statements, the AP Federal/Non-Federal line item allocation is unsupported.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement a process to research, identify, and correct systematic interface issues in DAI in a timely manner in order to reduce the overall undistributed transaction balance.
2. Work with its service organization to obtain a listing of underlying transaction-level support in a timely manner, which DISA could use to identify and record AP correctly as Federal or Non-Federal.
3. Until Recommendations #1 and #2 are implemented and operating effectively, continue to allocate Federal and Non-Federal AP for the undistributed JV based on an historical lookback analysis.

C. Abnormal Accounts Payable Balance Recorded on the Quarters 1-2 Balance Sheet

Background: DISA is a DoD agency that is required to prepare quarterly and annual financial statements in accordance with GAAP, as established by FASAB. The DISA GF cites OMB Circular A-136, *Financial Reporting Requirements*, as its financial reporting framework. In accordance with OMB Circular A-136, DISA GF 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 regarding presentation and disclosure, as well as in accordance with FASAB standards to be GAAP-compliant.

OMB Circular A-136, Section II.3.2, "Balance Sheet," includes specific requirements for the presentation of the Entity's Balance Sheet on its AFR. This includes the requirement to report AP on two separate line items, split between business with the public (Non-Federal AP) and intragovernmental AP (Federal AP). Both OMB Circular A-136 and FASAB's SFFAS No 1, *Accounting for Selected Assets and Liabilities*, defines AP as amounts owed by the reporting entity for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities. The TFM defines the AP GL accounts as having a normal credit balance. A balance other than what is defined as normal by the TFM for specific accounts would be considered abnormal and not compliant with the TFM. A negative AP with a debit balance would be considered an abnormal balance. A negative AP balance, which would be an abnormal debit, indicates amounts owed to the reporting entity, not amounts owed by the entity (i.e., an asset improperly recorded in a liability account and line item) and, therefore, would not be a valid AP. To be compliant with GAAP per SFFAS No. 1, DISA is responsible for ensuring that the Balance Sheet, as reported in its AFR, includes valid account line items with normal balances.

Condition: DISA GF reported a material abnormal balance in AP with the Public (Non-Federal) of $127 million on its March 31, 2021 Balance Sheet and $100 million on its December 31, 2020 Balance Sheet. This is a continuation to the abnormal balance of $110 million on the September 30, 2020 Balance Sheet which was not resolved prior to DISA issuing its draft AFR. DISA GF subsequently cleared the abnormal balance and reported normal balances of $1 million and $8 million as of September 30, 2021 and June 30, 2021, respectively.

Cause: DISA did not have appropriate controls and procedures in place to ensure review of the AP balances and the entries which made non-Federal AP abnormal at Q1 and Q2. DISA cited undistributed adjustments as the cause of the abnormal balance. However, DISA has been unable to provide evidence to support that the undistributed adjustment JVs are the cause of the abnormal balance.

DISA did not have adequate procedures and controls in place to confirm the appropriate classification (e.g., Federal vs. Non-Federal) of the reported AP balances or to perform adequate review of its eliminations and undistributed adjustments to ensure accuracy of the adjustments. Additionally, DISA does not have an effective OMB Circular A-123 program or an enterprise risk assessment process in place to allow for the detection of a material abnormal balance within its statements.

Effect: DISA GF reported a material misstatement on its December 31, 2020 and March 13, 2021 Balance Sheets as a result of a lack of appropriate controls and a QC review in place at year-end. Without appropriate processes and controls in place, there is an increased risk that DISA's material misstatements will exist in its financial statement balances and will not be presented in accordance with GAAP.

Recommendations: Kearney recommends that DISA perform the following:

1. Document and implement financial reporting controls to ensure that the balances recorded on the financial statements are appropriately classified (i.e., Federal vs. Non-Federal).
2. During monthly monitoring, with its service organization, research the cause of abnormal balances and document that research and the resolution of abnormal conditions.
3. Coordinate internally with its service organization to develop processes and facilitate the year-end financial reporting process to monitor the recorded balances and account for any abnormal balance instances.

4. Develop and implement a more effective risk assessment process and an OMB Circular A-123 internal control and risk management programs. DISA should update the process throughout the year, as necessary, identifying both anticipated and unanticipated risks, and determine an approach to mitigate these risks.
5. Coordinate and develop an SOP on financial reporting quarter-end and year-end policies, to include correcting abnormal balances with top-side JVs.

D. Lack of Documentation and Approval of DISA Management's Assessments Related to its Reporting Entity and Applicability of Insurance Programs per SFFAS Requirements

Background: FASAB's SFFAS No. 47 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," deciding what information should be presented for each type of entity, and noting related parties. Additionally, SFFAS No. 51 established disclosure requirements for insurance programs in connection with a reporting entity's GPFFR. Agencies are required to disclose their applicability and document whether they identify any of the following: 1) exchange transaction insurance programs other than life insurance, 2) nonexchange transaction insurance programs, and 3) life insurance programs. DISA management is responsible for determining the applicable implementation and documenting their review over the FASAB standards and the SFFAS assessments within a timely manner to ensure auditability and proper application of the standards.

Condition: In response to an FY 2020 finding, DISA implemented a procedure to review the SFFAS guidance related to No. 47 and document any updates via a draft checklist and assessment. However, DISA did not complete a timely and documented assessment listing of DISA's reporting limits and basic symbols in order to define its financial reporting entity, which would ensure completeness of its financial statements and related disclosures in accordance with SFFAS No. 47. DISA had not completed or documented an assessment over SFFAS No. 51 to determine whether it has any applicable insurance programs for which disclosure is required.

Cause: Despite some efforts in FY 2021 to address prior-year recommendations, DISA has not analyzed, developed, or implemented sufficient controls to ensure that it has complied with and documented DISA's applicability with the requirements of SFFAS No. 47 to periodically confirm it has appropriately defined the various Components comprised in its reporting entity, inclusion of its basic symbols and limits, and within a separately documented management-approved assessment, aside from the year-end footnote disclosures. DISA also has not implemented sufficient controls to ensure that it has disclosed and separately documented management's assessment, including the necessary information of its applicability of Insurance Programs under the requirements of SFFAS No. 51.

Effect: There is an increased risk that DISA's financial statements may be incomplete as a result of 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 the applicability of insurance programs.

Recommendations: Kearney recommends that DISA perform the following:

1. Complete the analysis, development, and implementation of the controls and procedures to annually assess and re-validate its GPFFR financial reporting entity for completeness, as well as its applicability to the disclosure of insurance programs, in accordance with the provisions of SFFAS No. 47 and No. 51, 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 OUSD(C) and DISA's service organizations.
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 GF).
3. Implement the controls and documentation mentioned in Recommendations #1 and #2 to ensure that the management assessments of SFFAS and its conclusions are properly reflected in DISA's respective footnotes.

E. Unmatched Accounts Payable, Expense, and Related Budgetary Transactions

Background: In October 2018, DISA transitioned its GL accounting system from WAAS to DAI. Due to data conversion and posting logic challenges, a significant number of payments made by its service organization on behalf of DISA were processed without matching the payment to the appropriate project within DAI. Payments not linked to a document in DAI, also called unmatched disbursements, generate expense transactions.

When a Federal agency prepares financial statements, a methodology for estimating amounts owed, but not yet invoiced, must be established. The AP estimate ensures expenses are recorded in the correct period following accrual accounting and the matching principle. The DISA GF records estimated AP/Expense based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement. This estimate relies on accurate and complete obligation and payment data in DAI. 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 estimate.

Unmatched transactions occur for a variety of reasons, such as truncated document numbers, payment amounts being higher than the project's AP balance, and typos (i.e., "0" versus "O"). Additionally, DISA indicated that certain systems do not interface correctly into DAI and drop key data elements required to pass validation checks and match appropriately in DAI. DISA also indicated that obligating documents are not entered timely in DAI and payments are made before initial agreements and/or modifications are recorded. DISA conducts manual research to determine why the transaction did not post to the correct project and coordinates with its service organization to post the correction to clear the unmatched transaction in DAI. To preserve the integrity of the financial information system, it is important to identify and prevent unmatched transactions and develop a reasonable estimate to establish a proper AP.

Condition: DISA's current business process and control structure allow payments to be processed without correctly or completely matching all data elements to an obligating document/ AP balance in DAI. When payments do not match to a document in DAI, there is an increased risk that duplicate expenses are recorded through the accrual process. DISA has not started the process of researching or identifying potential duplicate expenses. In order to clear unmatched transactions from DAI, a manual process of research and coordination with its service organization is required.

For the period ended September 30, 2021, the following amounts remained unmatched:

- Expense: $12.3 million
- AP: $19.1 million
- UDOs: $13.0 million.

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed if they cannot be matched to an outstanding payable and obligation. DISA indicated that certain disbursing offices do not interface specific data elements, such as CLINs and ACRNs. DISA has not yet identified all root causes of unmatched disbursements.

Effect: When material unmatched transactions exist, DISA cannot perform effective analysis or assert to the existence or completeness of its FY 2021 Gross Costs on its SNC or Cumulative Results of Operations (CRO) on its Balance Sheet. DISA cannot perform an AP accrual or accrual validation, perform cut-off procedures, or support that the amounts reported on Gross Costs on its SNC and AP on its Balance Sheet are complete and exist or occurred. Unmatched transactions could lead to erroneous or duplicative disbursements made without detection until the completion of the manual research process. The manual process needed to resolve unmatched transactions introduces additional risk of misstatement and is inherently inefficient. Prior-year misstatements are reported on the Gross Costs line-item (SNC) which are unaddressed, resulting in an overstatement in the CRO balance (Balance Sheet).

Recommendations: Kearney recommends that DISA perform the following:

1. Continue to coordinate with its service organization to establish and maintain controls to prevent disbursements from being processed if they are not matched to an outstanding payable and obligation.
2. Continue to coordinate with its service organization to establish controls to clear unmatched expense transactions in a timely manner and reduce the remaining transactions to a trivial amount.
3. Continue to perform an analysis to determine the root cause of the unmatched transactions and establish controls to mitigate future transactions from being processed.

4. Perform an analysis over the unmatched expense population and the contract accrual population to determine the impact of double-counted prior-year Gross Cost (SNC) transactions which are now in the CRO balance (Balance Sheet) in order to post an adjustment based on the analysis.

F. Defense Agencies Initiative Interface and Lack of Data Element Issues Relating to Wide Area Workflow and Defense Travel System

Background: The DISA GF procures goods and services from commercial vendors. As vendors complete contractual requirements, invoiced transactions are initiated through WAWF. Travel expenses for DISA employees are processed through DTS. WAWF and DTS interface through DISA's GL accounting system, DAI.

In October 2018, DISA transitioned its GL accounting system from WAAS to DAI to improve the budget, finance, and accounting operations of most DoD agencies. The DLA DAI PMO is responsible for the functionality and effectiveness of DAI's internal controls, which is tested and reported on through SOC 1® reports.

DISA GF utilizes various feeder files that interface from outside systems (e.g., WAWF and DTS) into DAI in order to record the transaction-level activity from those systems in DAI. DISA is responsible for ensuring there are effective controls in place to provide reasonable assurance that all relevant data is accurately interfaced from the feeder system to DAI. There could be instances where potential data transmissions may fail due to mapping, channel, and routing issues.

Condition: DISA GF identifies and tracks invoices that have not successfully interfaced from WAWF into DAI, which are identified on the WAWF Interface Status Report and Daily Overage Report. As of March 31, 2021, DISA specifically identified four transactions, totaling approximately $46.7 thousand, that had not interfaced from WAWF to DAI. DISA personnel noted that they were prioritizing the recording of invoices by amounts to avoid accumulation of interest penalties. Additionally, DISA GF confirmed that there were certain DTS data elements that were not appropriately interfacing into DAI, thus resulting in unmatched transactions, which are transactions that do not match or record to the associated expense.

Cause: DISA does not have appropriate monitoring or internal controls in place to ensure that the daily transactions are accurately recorded and interfacing from its operating systems into DAI. When interfacing, these transactions fail certain validation checks or are lacking necessary data elements to create a match within DAI, thus preventing the recording of the transactions accurately in DISA's GL system. DISA does not maintain a listing of the known interface issues with DAI, which would benefit the overall understanding of the noted GL issues. DISA has not completed research or analysis to identify the full number of transactions failing to interface, which systems failed to interface, or what was causing the interface failures, nor has it implemented the appropriate controls to remediate these interface issues.

Effect: Without proper controls to mitigate the interface issues in DAI, DISA is unable to assert to the completeness of the transactions recorded in DAI. Due to the inability of DISA to complete analyses over the impacted populations that interface or do not interface with DAI, there is an increased risk that material transactions are not recorded in DISA's financial statements, resulting in a material misstatement.

Recommendations: Kearney recommends that DISA continue to work internally and with its DAI PMO to perform the following:

1. Implement corrective actions based on root cause analysis for the transactions that are not systemically interfacing from DISA's operating systems into DAI, as well as implement a policy/procedure to prevent that occurrence in order for DISA to be able to assert to the completeness of its recorded transactions in DAI.
2. Establish and document a process and internal controls to ensure transactions are posted correctly and interfacing from the applicable systems/applications (e.g., WAWF and DTS) into DAI.
3. Continue to monitor and document procedures to clear and record the invoice transactions occurring within WAWF.
4. Implement and work with the DAI PMO to include the necessary data elements from the DTS transactions, as well as other feeder file/interface files to ensure that all data is appropriately transferred and interfaced across systems, thus eliminating and/or reducing unmatched transactions.
5. Review and implement the CUECs outlined within the DAI SOC 1® report, as well as implement any specific controls at the user entity level noted within the DAI PMO External Systems Integration SOP.

G. Lack of Timely Validation of Undistributed Journal Vouchers

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

DISA's service organization prepares various JVs for DISA and other customers and processes them within DDRS-B. DISA's service organization processes many of these JVs within DDRS-B, on behalf of DISA, including the Undistributed Cash JV. Since the accounting cycle is cut off the last day of each month, there is a timing difference between cash transactions reported on the CMR by its service organization on behalf of TI-97 agencies, including DISA, and cash transactions recorded in agencies' GLs, including DAI and the Financial Accounting and Management Information System (FAMIS) – WCF for DISA GF and DISA WCF, respectively. The CMR is used to prepare the Undistributed JV. The DRRT is not available until after the JVs have been completed. The Undistributed JV is prepared by calculating the difference between the CMR and DAI TB. The JV is recorded to eliminate the difference between the CMR and

DISA's GL. Each month, DISA's service organization prepares the Undistributed JV, which it processes in DDRS-B after DISA's review.

The difference between the cash transactions reported on the CMR and specific TI-97 agencies' GL is known as the undistributed Cash amount, as it includes transactions which have not been distributed to the agencies' GL system. DISA is responsible for ensuring FBWT is reconciled and maintaining effective internal controls over its financial reporting to prevent or detect material misstatements in a timely manner, as mandated by the FMR and the Government Accountability Office (GAO). This includes reviewing, approving, and maintaining support for all transactions and JVs recorded by DISA or by its service organization on DISA's behalf. By not administering these steps, DISA is at risk of posting unsupported adjusting entries and potentially reporting material misstatements in its financial statements. Additionally, DISA is responsible for implementing and maintaining effective controls and system interfaces to ensure that transactions posted outside of its GL system are recorded to its financials timely and accurately.

Condition: DISA does not have effectively designed controls in place to ensure and verify, in a timely manner, that the transactions on the Undistributed JV belong to DISA and are adequately supported. This includes the following:

- At the time of its posting, the Undistributed JV is not validated or researched by DISA to verify that the transactions included in this JV belong to DISA (i.e., were properly attributed to DISA based on the full LOA, including limit). During the FY 2021 Q1 pilot testing of the undistributed transactions, one of the 18 samples was determined to not belong to DISA and was improperly posted to DISA's GL
- DISA does not maintain readily available supporting documentation for the transactions included in the Undistributed JV and does not have effective processes in place to support the transactions in a timely manner. During the FY 2021 Q1 pilot testing of the undistributed transactions, DISA was unable to provide supporting documentation for six of the 18 selected samples
- DISA is unable to produce a UoT for individual undistributed transactions. During the FY 2021 Q1 pilot testing of undistributed transactions, it was determined that there are an unknown number of undistributed lines on the JV that are at the summary-level amount and composed of multiple individual transactions. One of the 18 samples selected for testing was a summary line. This requires additional time and effort for DISA to provide supporting documentation.

Cause: DISA does not have an effective OMB Circular A-123 program or an enterprise risk assessment process in place, which would include developing detective controls over recurring procedures, such as the monthly undistributed JV posting. Additionally, DISA's internal control program does not include testing controls to ensure they address the applicable financial reporting objectives. As such, DISA has not developed a process to ensure that all of its financial systems properly interface to ensure transactions are recorded timely. The Undistributed JV includes, on average, more than 3,500 transactions each month from approximately 35 different source systems for which transactions are processed but are not making it into DISA GF's DAI GL system timely.

Additionally, DISA has not designed and implemented effective controls to reconcile and review undistributed adjustments that are posted to its FBWT and resolve any differences timely and ensure that they are properly supported. In particular, there are no front-end controls in place to validate that the transactions included in the Undistributed JV belong to DISA and are properly supported with supporting documentation.

DISA does not effectively monitor the CMR process to ensure that the data populating the CMR is accurate and transactions belong to them. When the CMR data is reconciled in DRRT, there are not sufficient controls to verify that the limits are accurate, so the accuracy of the data that processes through the CMR, DRRT, and, ultimately, to DISA's financial statements is not properly verified; see the documented control deficiency over the DRRT process in Section I.E, *Lack of Controls over the Department 97 Reconciliation and Reporting Tool Process*.

Effect: As a result of a lack of effective controls in place, the Undistributed JV contributed to the abnormal balance in Non-Federal AP reported on FY 2020 GF AFR of $110 million. Additionally, DISA GF reported an abnormal balance in Non-Federal AP on its Balance Sheets for Q1 FY 2021 of $100 million and Q2 FY 2021 of $127 million. Additionally, FBWT was adjusted in the amounts of $128.4 million, $103.8 million, and $101.2 million for the periods ending March 31, 2021, December 31, 2020, and September 30, 2020, respectively, without validating the transactions or obtaining appropriate supporting documentation for the transactions prior to posting.

Without appropriate processes and controls in place, DISA management has an increased risk that FBWT, AP, and AR are materially misstated on the financial statements and may not be presented in accordance with GAAP. Based on the results of the FY 2021 Q1 pilot testing, DISA is at risk of reporting transactions on its financial statements that do not belong to DISA.

Recommendations: Kearney recommends that DISA perform the following:

1. Perform root cause analysis to identify why transactions do not make it into DISA GF's DAI system and why some external systems do not appropriately interface with DAI. DISA should determine what steps are necessary to fix the interface issues and ensure that transactions post correctly and timely into DISA GF's DAI to reduce the balance and material impact of the monthly Undistributed JVs.
2. Monitor the undistributed adjustments recorded in DDRS-B and research all unsupported adjustments to ensure the FBWT balances reported are accurate and complete prior to posting.
3. Coordinate directly with its service organization to develop and maintain a UoT at the detail transaction level and remove all summary lines from the UoT.
4. Document and implement appropriate controls to ensure that the balances recorded within the financial statements are appropriately classified and truly belong to DISA.

5. Perform a lookback analysis, determine any trends, if applicable, and identify root causes/systematic processes that would contribute to the high volume and high dollar values of undistributed transactions reported.
6. Develop and implement procedures to maintain readily available supporting documentation for the transactions included in the Undistributed JVs.

H. Unreconciled Differences between General Fund to Working Capital Fund Expense, Accounts Payable, and Related Budgetary Accounts

Background: DISA participates in various types of transaction activities that generate expenses for the agency, which are reported on the SNC. Specifically, DISA GF conducts transactions throughout the year with DoD agencies to provide telecommunication goods and services. As it is a Defense agency, DISA does not receive direct appropriations from Congress, which authorizes obligations and outlays using general funds, special funds, or trust funds via appropriations acts or other laws. DISA's authority to incur obligations is received through an allotment of funds appropriated to the DoD. Approximately 70% of DISA GF non-labor expenditures are with the DISA WCF.

Expenses are generated primarily through the costs to provide information system services to various trading partners, as well as the standard, operational expenses incurred throughout the FY. DISA performs a reconciliation of activity between WCF Revenue and GF Expense, as well as related budgetary accounts. DISA GF has not fully reconciled its budgetary and proprietary activity to WCF, in part due to unmatched and undistributed transactions. Although DISA GF and DISA WCF are separate entities, the agency is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the current OMB Circular A-123, *Management's Responsibility for Internal Control*; therefore, DISA is responsible for reconciling balances between its trading partners.

In October 2018, DISA GF transitioned its GL accounting system from WAAS to DAI. After the conversion, DISA GF encountered several system issues related to activity posting in a complete and accurate manner. These issues are described in detail in Section V.E, *Unmatched Accounts Payable, Expense, and Related Budgetary Transactions*; Section V.F, *DAI Interface and Lack of Data Element Issues Relating to WAWF and DTS*; and Section V.G, *Lack of Timely Validation of Undistributed JVs*. The remediation efforts related to these systematic issues are currently ongoing.

Condition: DISA did not fully reconcile its activity between GF and WCF. As of June 30, 2021, DISA GF noted the following variances:

- GF Expense/WCF Revenue: $23.3 million
- GF AP/WCF AR: $(585) thousand
- GF UDOs/WCF UCOs: $7.8 million.

Cause: As DISA is unable to confirm and validate all transactions within DAI, it cannot effectively reconcile its activity with WCF. DISA has not designed or implemented effective controls to reconcile and review undistributed adjustments that are posted or resolve any differences timely to ensure they are properly supported, as noted in Section V.G, *Lack of Timely Validation of Undistributed JVs*. Additionally, DISA's internal control program does not yet include a risk assessment that links risks to financial statement lines or assertions. It also does not include testing controls to ensure they address the applicable financial reporting objectives; updates to the internal control program will help to identify and remediate control gaps and better communicate updates/risks identified between DISA as an agency.

Effect: DISA is unable to assert to the completeness and accuracy of the balances reported on the SNC and SBR due to unresolved variances with WCF. Without effective controls in place, the risk increases that DISA may record unsupported variances between DISA WCF and DISA GF, which could result in material misstatements as of September 30, 2021.

Recommendations: Kearney recommends that DISA perform the following:

1. Design, implement, and document a process to reconcile and review differences between the WCF and GF activity timely.
2. Develop a process to research variances noted and determine root causes.
3. Establish and document internal controls to ensure the accuracy of the reconciliation, as well as update SOP to accurately reflect the input and management review.

Significant Deficiency

Throughout the course of our audit work at DISA, we identified internal control deficiencies which were considered for the purposes of reporting on internal control over financial reporting. The significant deficiency 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. ***Exhibit 2*** presents the significant deficiency identified during our audit:

Exhibit 2: Significant Deficiency

Significant Deficiency	Significant Deficiency Sub-Category
I. Information Technology	A. Incomplete Complementary User Entity Controls Implementation

I. Information Technology *(Repeat Condition)*

A. Incomplete Complementary User Entity Controls Implementation

Background: DISA utilizes several service organizations to support its operations and mission. As such, DISA obtains assurances from each organization regarding the effectiveness of the organization's internal controls related to the service(s) provided. Specifically, each organization provides a written assertion that accompanies a description of its service(s) and related information system(s). These assertions are communicated via a SOC report. In FY 2021, each service organization provided DISA management with a SOC 1®, Type 2, *Report on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, to report on the design and operating effectiveness of its internal controls.

In many cases, service organizations design their controls in support of their service(s) with the assumption that the user entities (i.e., customers or users of the service[s]) will implement certain controls (i.e., CUECs) to achieve the overall control objectives and create a secure computing environment. Specifically, the Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, defines CUECs as controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities and are necessary to achieve the control objectives stated in management's description of the service organization's system.

DISA relies on multiple service organizations and their respective SOC reports to gain an understanding of the security posture of each of the systems upon which DISA relies. For example, DISA utilizes DLA's DAI system for time, attendance, and processing accounting transactions; DLA's Defense Property Accountability System (DPAS) for logistics and property management services; DLA's WAWF for management of goods and services; the Defense Finance and Accounting Service's (DFAS) DCAS for transaction distribution services; DFAS's Defense Civilian Pay System (DCPS) for Federal civilian payroll services; DFAS's DDRS for financial reporting services; DFAS's Automated Disbursing System (ADS) for standard disbursing services; and the Defense Manpower Data Center's (DMDC) Defense Civilian Personnel Data System (DCPDS) for processing payroll affecting civilian human resource transactions.

Condition: DISA has not implemented all the CUECs required by its service organizations. Based on a subset of high-risk CUECs (i.e., user authorization, periodic access reviews, and separations) required by DISA's service organizations, examples of control deficiencies indicating CUECs that DISA has not fully implemented included:

- DISA did not maintain adequate documentation to support management's approval of the level of access granted to DISA users of the DPAS application
- DISA did not appropriately authorize users' logical access prior to granting them access to the DCPDS application
- DISA did not perform periodic reviews of DISA users for the WAWF application
- DISA did not document the completion of its periodic review of DISA users for the DCPS application
- DISA did not consistently remove or disable access to DISA users of the DAI and WAWF applications upon their separation from the agency.

Cause: DISA was aware of the requirements for implementing the CUECs and had begun implementation; however, DISA had not finalized its implementation of all CUECs as of the date of this report. Throughout FY 2021, DISA performed an internal risk assessment of common CUECs among its service organizations and prioritized testing the implementation of controls it deemed high-risk. While DISA developed test procedures and documented results for each CUEC, it had not documented guidance regarding how it explicitly implemented each CUEC.

Effect: As SOC 1®, Type 2 reports address the effectiveness of controls related to the user entity's financial reporting, ineffective controls or control objectives (e.g., access controls, security management, and configuration management) increase the risk of negative impact to the confidentiality, integrity, and availability of data supporting DISA's financial statements. 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 perform the following:

1. Develop a process control document which details how DISA management, system owners, and/or information owners plan to implement all CUECs identified within each service organization's SOC 1®, Type 2 report.
2. Implement all CUECs identified within each service organization's SOC 1®, Type 2 report.
3. Implement a QC review over the CUEC process.

* * * * *

KEARNEY& COMPANY

APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Defense Information Systems Agency's (DISA) General Fund's (GF) fiscal year (FY) 2020 financial statements, we noted several issues that were related to internal control over financial reporting. The status of the FY 2020 internal control findings is summarized in ***Exhibit 3***.

Exhibit 3: Status of Prior-Year Findings

Control Deficiency	FY 2020 Status	FY 2021 Status
Fund Balance with Treasury	Material Weakness	Material Weakness
Accounts Receivable/Revenue	Material Weakness	Material Weakness
Accounts Payable/Expense	Material Weakness	Material Weakness
Budgetary Resources	Material Weakness	Material Weakness
Financial Reporting	N/A	Material Weakness
Information Technology	Material Weakness	Significant Deficiency

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

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

We were engaged to audit, in accordance with 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. 21-04, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise DISA GF's financial statements, and we have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DISA GF, we performed tests of its compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DISA GF. However, providing an opinion on compliance with those provisions was not an objective of our engagement; 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. 21-04 and are described in the accompanying Schedule of Findings.

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

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

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DISA GF's Response to Findings

The DISA GF'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). The DISA GF's response was not subjected to the auditing procedures applied in our engagement of the financial statements; 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 compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2021

KEARNEY& COMPANY

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.

The Defense Information Systems Agency's (DISA) financial management systems do not substantially comply with the requirements within FFMIA, as discussed below.

Federal Financial Management Systems Requirements

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

Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support financial reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). As described in the "Basis for Disclaimer of Opinion" section in the accompanying *Independent Auditor's Report*, we experienced a scope limitation and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DISA's financial statements. Because of the significance of this scope limitation, we were unable to determine whether DISA's financial statements contained material departures from GAAP.

United States Standard General Ledger at the Transaction Level

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

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

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

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

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

DISA Management Comments to Auditors Report

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

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

Mr. Zavada:

DISA acknowledges receipt of Kearney & Company's final audit report for DISA's FY 2021 General Fund (GF) financial statements.

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

DISA has a placed renewed focus on successful resolution of the remaining audit issues during the upcoming audit cycle.

SWONGER.RICHARD.G.[redacted]
Digitally signed by SWONGER.RICHARD.G.[redacted]
Date: 2021.11.05 14:50:20 -04'00'

GREG SWONGER

Director, Accounting Operations and Compliance