Defense Information Systems Agency
General Fund
Agency Financial Report
Fiscal Year 2024

Message From the Defense Information Systems Agency

As the Defense Information Systems Agency (DISA) director, I am presenting the Agency Financial Report (AFR) for the DISA General Fund (GF), as of Sept. 30, 2024. These statements and accompanying footnotes incorporate management discussion and analysis, performance, and financial sections that include the auditor's signed report. The AFR is prepared as directed by the Office of Management and Budget Circular A-136. As the agency head, I have assessed the financial and performance data in this report, focusing on the continued improvements of completeness and reliability. The disclaimer received on DISA GF's 2024 financial statements has been considered, and therefore we cannot fully assert to the accuracy of the 2024 GF financial statements until the known issues have been resolved and tested by the auditors. Our response and planned improvements are further discussed throughout this letter.

In FY 2024, DISA continues to be a trusted partner throughout the Department of Defense (DoD), leading the way in providing information technology (IT) and telecommunication support to our warfighters. DISA is optimizing the DoD's network, by modernizing the infrastructure, finding opportunities to leap ahead, and divest of legacy. The agency is committed to enhancing protection against sophisticated threats, while improving user access to cloud applications and migrations to the DoD365 environment. As a combat support agency, DISA continues to support global DoD missions, including those in Ukraine, Israel, and Haiti.

DISA's strategy for FY 2025-2029, DISA Next, outlines how the agency is solving enterprise-level, hard, and complex IT and telecommunications problems. Our first priority is to simplify the network with large-scale adoption of a common IT environment. Consolidating combatant commands, defense agencies, and field activities is also a key step in providing a DoD-wide warfighting information system. Second, we must develop a fully functional DoD enterprise cloud environment and enable secure cloud access to provide relevant tools that DoD customers need to fully realize cloud capabilities. The third priority is to integrate our Identity, Credential, Access Management (ICAM), and Zero trust capabilities with our common IT and club environment.

This year, we have continued to make improvements in our financial processes based on feedback by our independent public accounting (IPA) firm Kearney & Company. The IPA reported material weaknesses and significant deficiencies, which DISA is addressing through mitigating controls, specifically in accounts receivable/revenue, accounts payable/expense, budgetary resources, and property, plant, and equipment. Our efforts to improve the completeness and reliability of DISA's GF continue to evolve our financial processes, through updated internal controls (such as ICAM), which improve accuracy and efficiency for better decision making. DISA can provide reasonable assurance that internal controls over financial reporting, operations, and compliance are operating effectively as of Sept. 30, 2024. DISA GF has established corrective action plans to address material weakness findings on DISA's GF financial statements. DISA will continue to gain efficiencies by expanding our usage of automation. The agency continues to improve its posture with a sound internal control environment to execute our strategy effectively while prioritizing command and control, driving force readiness through innovation, and improving cost management.

PAUL T. STANTON, Ph.D.
Lieutenant General, USA
Director

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Defense Information Systems Agency

General Fund

Management's Discussion and Analysis

Fiscal Year 2024, Ending Sept. 30, 2024

The Defense Information Systems Agency (DISA) is pleased to present a Management Discussion and Analysis (MD&A) to accompany its fiscal year (FY) 2024 financial statements and footnotes. The key sections within this MD&A include the following:

1. **Context for the Financial Information in the MD&A**
2. **Analysis of Financial Statements**
3. **Analysis of Systems, Controls, and Legal Compliance**
4. **Forward-Looking Information**

1. Context for the Financial Information in the MD&A

History and Enabling Legislation

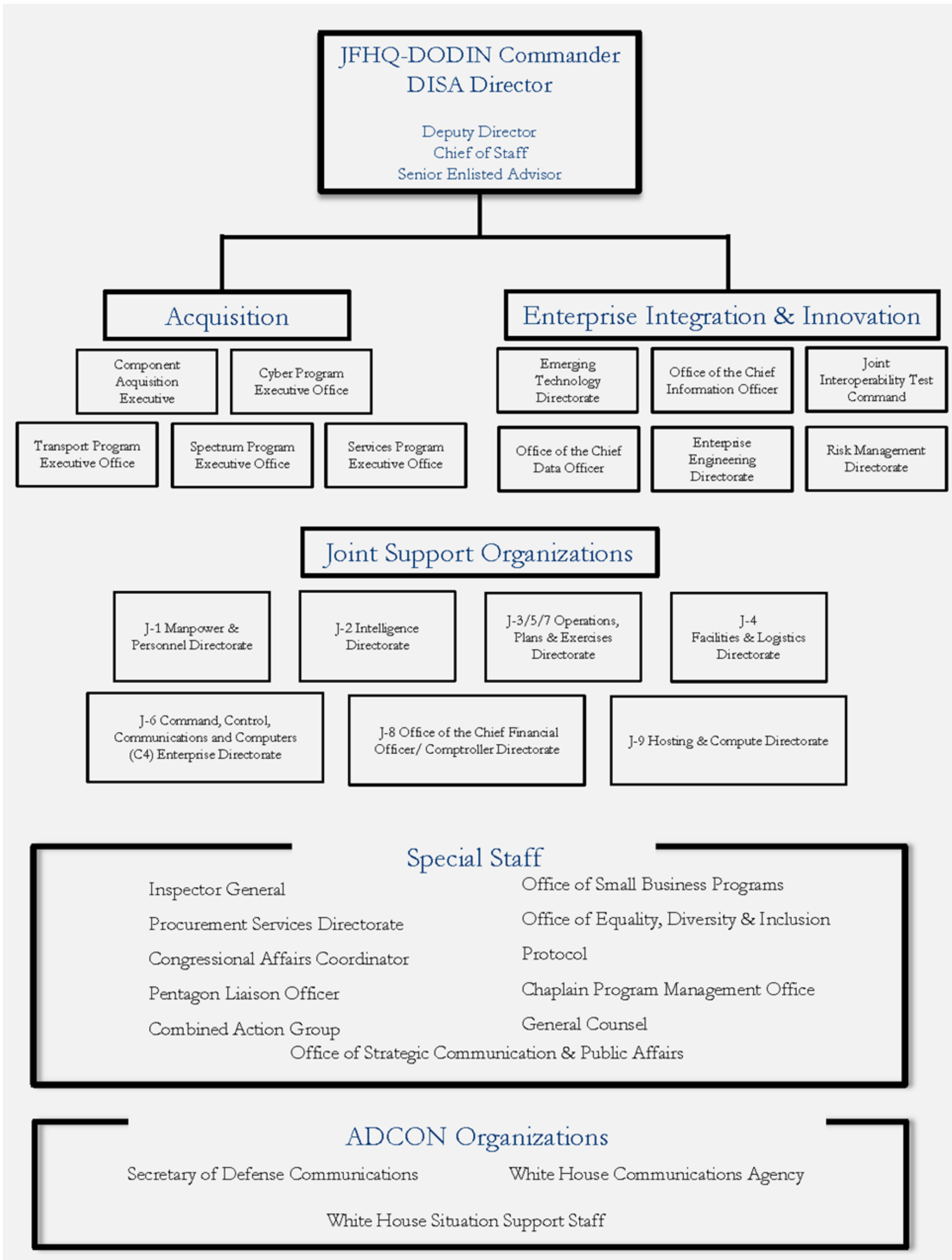
DISA, a combat support agency, provides, operates, and assures command and control, information sharing capabilities, and a globally accessible enterprise information infrastructure in direct support of joint warfighters, national level leaders, and other mission and coalition partners across the full spectrum of operations. DISA implements the Secretary of Defense's Defense Strategic Guidance and reflects the Department of Defense (DoD) Chief Information Officer's (CIO) Capability Planning Guidance. The DoD CIO vision is "to be the trusted provider to connect and protect the warfighter in cyberspace."

DISA serves the needs of the president, vice president, secretary of defense, Joint Chiefs of Staff (JCS), combatant commands, 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 defense of the nation. DISA is charged with connecting the force by linking processes, systems, and infrastructure to people.

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 (NCR). DISA continues to offer DoD information systems support, taking data services to the forward deployed warfighter.

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 August 2024 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.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 47, DISA General Fund (GF) does not have any consolidation or disclosure entities that are required to be disclosed within these notes. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities. Disclosure entities are not consolidation entities. Disclosure entities may provide the same or similar goods and services that consolidation entities do but are more likely to provide them on a market basis.

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 receives four categories of appropriations: Operations and Maintenance (O&M); Procurement; Research, Development, Test, and Evaluation (RDT&E); and Military Construction (MILCON). Refer to the Combining Statement of Budgetary Resources (SBR) and Consolidating Statement of Net Cost charts in the Required Supplemental Information section of this document for a breakout of DISA GF's budgetary resources and costs for each appropriation category. These appropriations fund DISA’s six mission areas, which reflect DoD’s goals and allow DISA to execute its core missions and functions.

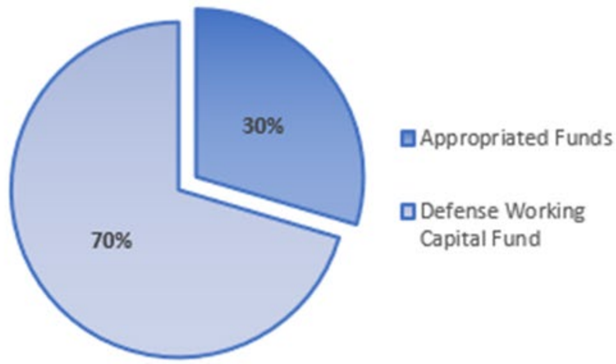
1. "Transition to the Net-Centric Environment" funds capabilities and services that transform the way that DoD shares information by making data continuously available in a trusted environment. This mission area includes enterprise services, engineering services, and technical strategies developed by DISA's chief technology officer.
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 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; the information assurance/public key infrastructure program; cybersecurity initiatives; and budgets for DISA's field offices, which support the Combatant Commands, and for the Joint Staff Support Center, 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 program, Global Combat Support System-Joint 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 in the Network Services Directorate are budgeted out of this mission area.

Resources: DISA is a combat support agency of the DoD with a $12.5 billion annual budget.

BUDGET

Appropriated	$3.7 Billion
Defense Working Capital Funds	$8.8 Billion
Total DISA Budget	**$12.5 Billion**



Global Presence

DISA is a global organization of approximately 7,500 civilian employees; 1,600 active-duty military personnel from the Army, Air Force, Navy, and Marine Corps; and over 11,000 defense contractors. This data is as of August 2024. 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 (U.S. territory), with 53 percent of its people based at Fort Meade and the National Capital Region, and 47 percent based in field locations.

In addition, the following organizations are a part of DISA: Office of the Chief Financial Officer, Component and Acquisition Executive, Chief of Staff, Inspector General, Joint Force Headquarters-Department of Defense Information Network, Operations and Infrastructure Center, Procurement Services Directorate, Risk Management Executive, White House Communications Agency and Workforce Services and Development Directorate. 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.

DISA is the combat support agency entrusted with the Defense Department's information system network. It is our responsibility to transform and integrate our capabilities and services to best support the DoD. The strategic planning framework aligns agency day-to-day efforts to the National Defense Strategy (NDS).

The first two strategic imperatives and four operational imperatives describe DISA's daily mission. As a combat support agency, DISA is designed and chartered to execute these critical functions. These imperatives align to the NDS priorities and reflect how DISA enables the Defense Department and Joint Force as they deter, defend and campaign.

Strategic Imperative 1 is to Operate and Secure the DISA Portion of the DoD Information Network. Operate refers to the 24/7 management of DISA's terrain, whereas secure refers to DISA's responsibility to protect DISA's terrain, data at rest and date in transit.

The first Operational Imperative is to provide relevant, modern enterprise and business tools. DISA must provide state of the art capabilities that will not only meet current requirement but will posture their customers to take advantage of emerging capabilities that provide competitive advantages in a contest environment. The second Operational Imperative is to provide resilient and redundant Defense Information System Network backbone. To ensure there are no breaks in service and that all traffic arrives at its destination unimpeded, it is critically important that DISA build survivability into the DISN. The third Operational Imperative is to manage the agency. DISA's administrative activities that are crucial in this endeavor include governance, facility management, human capital initiatives and internal processes.

Strategic Imperative 2 is to Support Strategic Command, Control and Communications. DISA is key to supporting the systems, capabilities, networks and processes that enable command and control and allow senior leaders to communicate securely across the globe. The fourth Operational Imperative is to Operationalize the Cloud. DISA's cloud service will be operationalized, meaning the agency will provide a secure cloud environment so warfighters may access data at the breadth, width and speed of modern combat operations.

DISA Approach as outlined in the FY 2025-2029 Strategic Plan include:

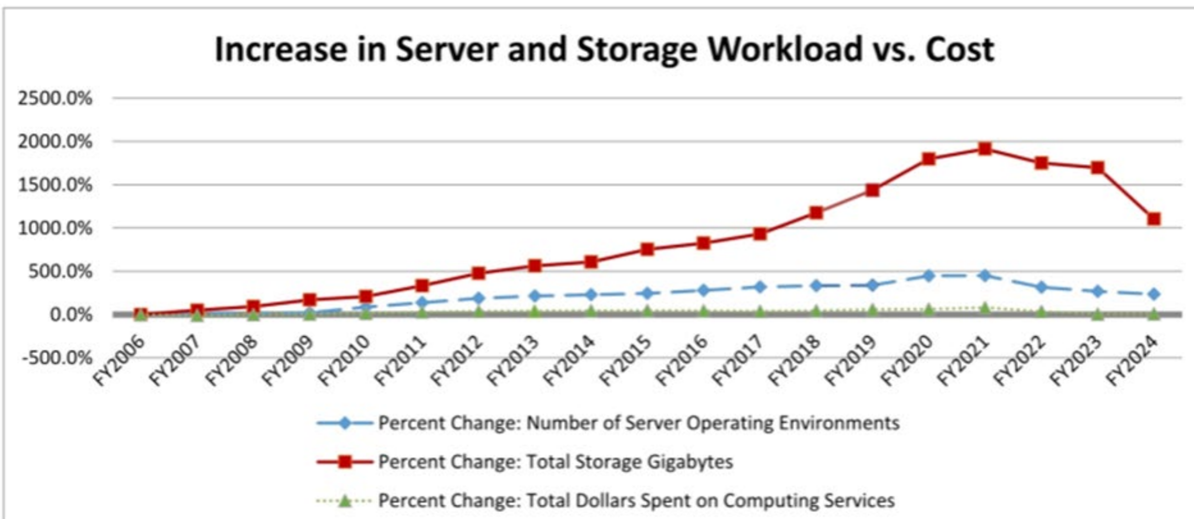
The overarching drive of the DISA Next Strategy is that DISA Must: Campaign; Respond well in crisis, fight and win; gain and maintain relative advantage in cyberspace; and make the DoD better. This is achieved through the strategic imperatives and their coordinating operational imperatives described. The imperatives suggest forward motion toward the future, arriving at the goals of next generation DISN, hybrid cloud environment, national leadership command capability, joint/coalition warfighting tools, a consolidated network, zero-trust tools, data management, and workforce.

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 with individual customers that exceed the general performance measures discussed in the following paragraphs.

DISA Working Capital Fund (WCF) Performance Measures

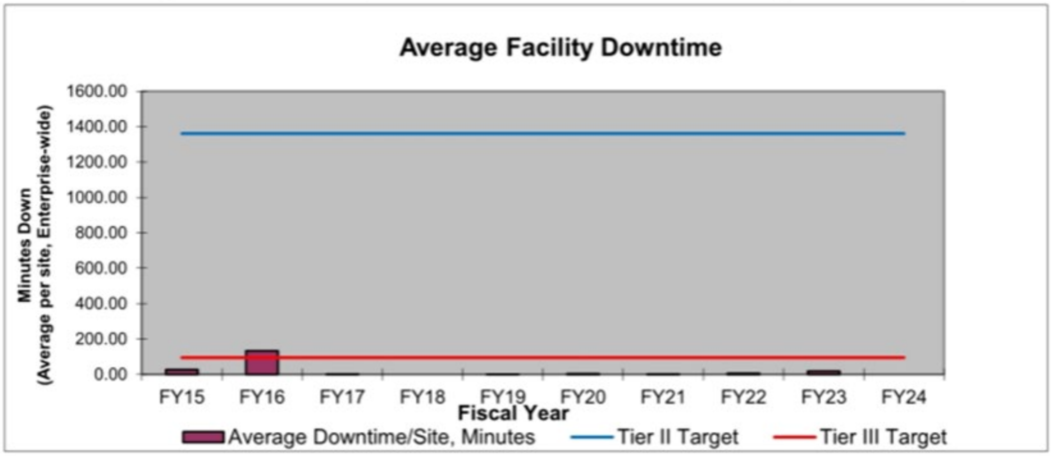
The table below represents the increased demand for DISA's server and storage computing services, which has grown significantly since FY 2006. Since that year, the number of customer driven server operating environments has increased by 267 percent, and total storage gigabytes have increased by 1,698 percent. Over the same timeframe, the cost to deliver all computing services has increased by only 8 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 Services (PE54) 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 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.

Core Data Center Availability

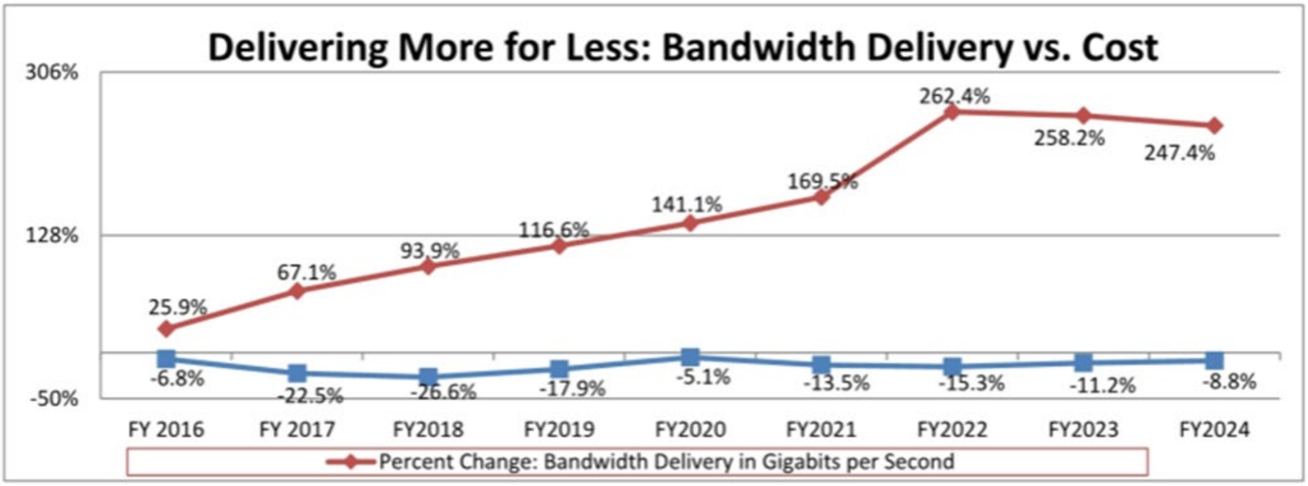


The second metric, "Capacity Service Contract Equipment Availability," represents DISA's equipment availability by technology, i.e., how well DISA is executing its responsibilities exclusive of factors outside the agency's control such as last-mile communications issues, base power outages, or the like. 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.

Figure 1-Capacity Services Contract Equipment Availability

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

The Telecommunications Services (PE55) 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 connections, with transport costs. Since FY 2016, DISA has increased transport bandwidth delivery capacity 258.2 percent to meet customer demand. The increase is driven by internet traffic, DoD Enterprise Services, full motion video collaboration, and intelligence, surveillance, and reconnaissance requirements. Over the same timeframe, transport costs associated with the physical connections between sites have decreased by 11.2 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. These categories of metrics have guided the development of the Telecommunication Services budget submission.

Figure 2- Major Performance and Performance Improvement Measures

SERVICE OBJECTIVE	FY 2024 Operational Goal	FY 2025 Operational Goal	FY 2026 Operational Goal
Non-Secure Internet Protocol Router Network access circuit availability	98.5%	98.50%	98.50%
Secure Internet Protocol Router Network latency (measurement of network delay) in the continental United States	<= 100 milliseconds	<= 100 milliseconds	<= 100 milliseconds
Optical Transport	99.50%	99.50%	99.50%

The EAS (PE56) business area is the department's ideal source for procurement of best-value and commercially competitive IT. EAS provides contracting services for IT 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 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.

Figure 3- EAS Performance Measures

SERVICE OBJECTIVE	FY 2024 Estimated ACTUAL	FY 2025 Operational Goal*	FY 2026 Operational Goal*
Percent of total eligible contract dollars completed	82.4%	73.00%	73.00%
Percent of total eligible contract dollars awarded to small businesses	21.43%	25.00%	25.00%

*FY 2025 and FY 2026 goals for percent of total eligible contract dollars competed are estimates based on the released FY 2024 goal. The goals have not yet been released by the Defense Procurement Acquisition Policy (DPAP).

In addition to the program performance measures outlined above, DISA has increased accountability of its assets by linking performance standards to internal control standards. Each Senior Executive Service member at DISA has included in their performance appraisal a standard to achieve accountability of property. This standard has filtered down to managers across the agency. This increased focus on accountability for managers has had a significant impact on the critical area of safeguarding assets. DISA's AFR will be published at https://www.disa.mil/about/legal-and-regulatory/budget-and-performance-reports by Nov. 15, 2024.

2. **Analysis of Financial Statements**

Background

Defense Information Systems Agency (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 and 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.

DISA General Fund (GF) did not receive a significant amount of COVID related budgetary resources in fiscal year (FY) 2024. DISA GF does not have any existing indefinite resources associated with COVID requirements. In FY 2024, there was no additional impact to financial reporting for DISA GF assets, liabilities, cost, revenue, or net position.

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 year ended Sept. 30, 2024, reflect a fund that had an increase in overall appropriations in FY 2024 compared with FY 2023. See the table below for comparative data for appropriations received between these two fiscal years.

Figure 4-Executive Summary

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc./(Dec.)	% Chg.
O&M (0100)	$ 3,185,933	$ 2,950,595	$ 235,338	8%
PROC (0300)	487,797	517,416	(29,619)	-6%
RDT&E (0400)	224,708	286,328	(61,620)	-22%
Consolidated Balance	$ 3,898,438	$ 3,754,339	$ 144,099	4%

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 Service (DFAS) have been reviewed and approved by DISA staff.

The following financial statement highlights an explanation of amounts reported in significant financial statement line items and/or financial notes, and variances between the fourth quarter of FY 2024 reported balances and those in the fourth quarter of FY 2023. 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.

BALANCE SHEET

Assets

Fund Balance with Treasury - The following chart displays fiscal year-to-date net cash flow from current year operations (collections less disbursements) reported to the Department of the Treasury for FY 2024 and FY 2023 by appropriation presented in a comparative manner:

Figure 5- Fund Balance with Treasury

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)	$ 1,744,414	$ 1,479,505	$ 264,909	18%
PROC (0300)	826,597	871,569	(44,972)	-5%
RDT&E (0400)	230,028	292,216	(62,188)	-21%
MILCON (0500)	16,565	25,336	(8,771)	-35%
Consolidated Balance	$ 2,817,604	$ 2,668,626	$ 148,978	6%

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, representing DISA GF's portion of the TI97 appropriated account balances reported by the Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level. The consolidated undistributed balance as of Sept. 30, 2024, is $12.2 million, compared with $6.9 million on Sept. 30, 2023.

Accounts Receivables, Net - Accounts receivables balances by appropriation as of Sept. 30, 2024, and Sept. 30, 2023, are as follows:

Figure 6-Accounts Receivable, Net

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 6,997	$ 25,859	$ (18,862)	-73%
Public	310	1,039	(729)	-70%
PROC (0300)				
Intragov.	(32)	1,942	(1,974)	-102%
Public	-	31	(31)	-100%
RDT&E (0400)				
Intragov.	1,279	3,337	(2,058)	-62%
Public	302	374	(72)	-19%
Consolidated				
Intragov.	8,244	31,138	(22,894)	-74%
Public	612	1,444	(832)	-58%
Total Consolidated	$ 8,856	$ 32,582	$ (23,726)	-73%

- The Operations & Maintenance (O&M) (0100) intragovernmental decrease is attributable to the net of a $20.3 million decrease in overall accounts receivable and a $1.5 million increase in undistributed collections, which increases the total accounts receivable balance.

- The Procurement (PROC) (0300) intragovernmental decrease is attributable to a $1.9 million decrease in overall accounts receivable.

- The Research, Development, Test, and Evaluation (RDT&E) (0400) intragovernmental decrease is attributable to the net of a $2.3 million decrease in overall accounts receivable, and a $0.3 million increase in undistributed collections, which increases the total accounts receivable balance.

- The overall decrease in public accounts receivable is a result of attribute changes made at the transaction level in the accounting system**.**

General Property, Plant, and Equipment, Net - General property, plant, and equipment (PP&E) balances by appropriation as of Sept. 30, 2024, and Sept. 30, 2023, are as follows:

Figure 7-General and Right-to-Use PP&E, Net

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)	$ 58,644	$ 38,197	$ 20,447	54%
PROC (0300)	442,274	261,417	180,857	69%
RDT&E (0400)	5,199	4,756	443	9%
MILCON (0500)	2,587	20,775	(18,188)	-88%
Consolidated	$ 508,704	$ 325,145	$ 183,559	56%

- The 54 percent increase in O&M (0100) general PP&E was driven by:
    - A $25.2 million increase in Construction-in-Progress (CIP) for the Thunderdome project.
    - A $3.3 million increase in accumulated depreciation on equipment, which draws down PP&E.

- The 69 percent increase in PROC (0300) general PP&E was driven by:
  - A $211 million increase in equipment mainly attributed to corrections in the accounting of capitalized JSP projects, and $105.2 million increase in accumulated depreciation on equipment, which draws down PP&E.
  - An $80.5 million increase in CIP related to corrections in the accounting of capitalized JSP purchases that have not yet shipped.
  - A $2.1 million decrease in internal-use software in development, and $3.4 million increase in accumulated amortization on internal-use software, which draws down PP&E.
- The 88 percent decrease in MILCON (0500) general PP&E was driven by a $20.2 million decrease in CIP related to the completion and transfer of the Ft. Huachuca building to the Army, the hosting installation.

Liabilities

Total Liabilities Not Covered by Budgetary Resources - Total liabilities not covered by budgetary resources are primarily composed of: accounts payable balances associated with cancelled appropriations, unfunded annual leave, and unfunded lessee lease liabilities, legal contingent liabilities, and Federal Employees' Compensation Act (FECA) balances. If an accounts payable 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. Unfunded annual leave and FECA balances 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	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 844	$ 771	$ 73	9%
Public	52,904	48,321	4,583	9%
PROC (0300)				
Public	(19)	1	(20)	-2000%
RDT&E (0400)				
Public	(53)	-	(53)	0%
Consolidated				
Intragov.	844	771	73	9%
Public	52,832	48,322	4,510	9%
Consolidated	$ 53,676	$ 49,093	$ 4,583	9%

- Non-federal liabilities O&M increased by 9 percent driven by:
  - A $2.5 million increase in unfunded annual leave,
  - A $1.9 million increase in legal contingent liabilities which are recorded when, in the opinion of the DISA Legal Office, the amount is considered probable.

Total Liabilities Covered by Budgetary Resources - Total liabilities covered by budgetary resources are made up of four types of liabilities:

1. Accounts payable balances are recorded in various ways based on the underlying transaction. DISA staff evaluate purchases recorded, accrued cost, and accounts payable for service-based orders as applicable. Accounts payable for goods is based on receipt of invoice. DISA continues to refine the accrual methodology processes to match the recording of cost more accurately 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, 2024, and Sept. 30, 2023, consist of the following:

Figure 9-Total Liabilities Covered by Budgetary Resources

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 262,941	$ 256,644	$ 6,297	2%
Public	21,378	17,033	4,345	26%
PROC (0300)				
Intragov.	47,436	57,419	(9,983)	-17%
Public	3,507	3,040	467	15%
RDT&E (0400)				
Intragov.	27,069	38,878	(11,809)	-30%
Public	3,221	3,885	(664)	-17%
MILCON (0500)				
Intragov.	140	856	(716)	-84%
Public	62	63	(1)	-2%
Consolidated				
Intragov.	337,586	353,797	(16,211)	-5%
Public	28,168	24,021	4,147	17%
Consolidated	$ 365,754	$ 377,818	$ (12,064)	-3%

- The O&M (0100) intragovernmental increase was driven by a $23 million increase in accounts payable, and a $17.2 million change in undistributed accounts payable disbursements that led to an overall abnormal undistributed balance. The public increase was driven by a $10.9 million decrease in abnormal undistributed accounts payable which increases overall accounts payable, an $8.3 million decrease in normal accounts payable, and a $2 million increase in accrued funded payroll and leave-salaries and wages.
- The PROC (0300) intragovernmental decrease was driven by a $9.2 million decrease in normal accounts payable.
- The RDT&E (0400) intragovernmental decrease was driven by an $14.1 million decrease in normal accounts payable, and a $2.3 million decrease in abnormal undistributed accounts payable disbursements which increases overall accounts payable.

Other Liabilities - Other liabilities primarily comprise five types of liabilities:

1. Unfunded FECA balances. These liabilities are accrued in the current period and will be funded when they come due in future years.
2. Contingent Liabilities.
3. Employer contribution and payroll taxes payable (health benefits, life insurance, and retirement).
4. Liability for advances and prepayments.
5. Unfunded Lessee Lease Liability.

The prior year values on this note have been adjusted due to a change in the presentation of liabilities on the Balance Sheet which shifted Accrued Funded Payroll and Leave balances from the Other Liabilities note to the Federal Employee Salary, Leave, and Benefits note.

Figure 10-Other Liabilities

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 3,264	$ 2,646	$ 618	23%
Public	3,912	1,787	2,125	119%
Consolidated	$ 7,176	$ 4,433	$ 2,743	62%

Figure 11-Other Liabilities: Advances from Others and Deferred Revenue

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)				
Public	$ 2,442	$ 2,782	$ (340)	-12%
RDT&E (0400)				
Public	1,922	2,611	(689)	-26%
Consolidated	$ 4,364	$ 5,393	$ (1,029)	-19%

- Other liabilities increased overall by $1.7 million, driven by a $1.8 million increase in non-federal contingent liabilities (0100) a $0.3 million increase in non-federal unfunded lessee lease liability (0100), a $0.4 million increase to federal employer contributions and payroll taxes payable retirement (0100), a $0.1 million increase to federal employer contributions and payroll taxes payable health benefits (0100), a $0.3 million decrease in non-federal liability for advances and prepayments (0100) and a $0.7 million decrease in non-federal liability for advances and prepayments (0400).

CONSOLIDATED STATEMENT OF NET COST

Net cost of operations decreased by $184.7 million, or 5 percent, between the fourth quarter of FY 2023 and the fourth quarter of FY 2024. The change in net cost of operations comprises a decrease in gross costs of $103.9 million and an increase in earned revenue of $80.8 million.

Figure 12-Consolidated Statement of Net Cost

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)	$ 2,913,005	$ 2,852,585	$ 60,420	2%
PROC (0300)	239,495	372,183	(132,688)	-36%
RDT&E (0400)	248,033	358,607	(110,574)	-31%
MILCON (0500)	(674)	1,175	(1,849)	-157%
Consolidated	$ 3,399,859	$ 3,584,550	$ (184,691)	-5%

- The increase in O&M (0100) is attributable to
    - A $150 million increase in operating expenses/program costs.
        - $82.5 million increase in other contractual services, including $23.7 million for O&M of equipment, $14.3 million for advisory and assistance services, and $12.6 million for services from non-federal sources;

        - $54 million increase for rent, communications, utilities, and miscellaneous charges;
        - $24.7 million increase for full-time permanent personnel compensation; and a
        - $10.4 million decrease in equipment.
    - An $81.8 million increase in revenue from services provided.
    - A $27.8 million increase for cost capitalization offsets for general PP&E, which draws down costs.
    - A $10.2 million increase in imputed costs for retirement.
    - A $3.8 million increase in personnel retirement benefits.
    - A $2.7 million increase in future funded annual leave liability.
    - A $1.1 million increase in personnel health benefits.
    - A $1 million decrease in changes in actuarial liabilities.

- The decrease in PROC (0300) is attributable to
    - A $224.5 million increase in cost capitalization offsets for general PP&E, which draws down costs.
    - A $71.5 million increase in depreciation, amortization, and depletion – equipment.
    - An $11.1 million increase in operating expenses/program costs.
        - $36.3 million increase in equipment, and
        - $31.7 million decrease in contractual services, including a $47.9 million decrease for O&M of equipment, a $36.7 million increase for advisory and assistance services.
        - $15.2 million increase in total obligations, and
        - $7.1 million decrease for rent, communications, utilities, and miscellaneous charges.
    - An $8.8 million decrease in revenue from services provided.

- The decrease in RDT&E (0400) is attributable to
    - A $104.2 million decrease in operating expenses/program costs.
        - $56.2 million decrease in contractual services for research and development, and
        - $49.6 million decrease in contractual services for O&M of equipment.
    - A $7.8 million increase in revenue from services provided.

- The decrease in MILCON (0500) is attributable to
    - A $7.4 million decrease in operating expenses/program costs.
        - $7.3 million decrease in equipment.
    - A $7.3 million decrease for cost capitalization offset for general PP&E, which increases costs.
    - A $1.1 million decrease in depreciation, amortization, and depletion – equipment.

STATEMENT OF CHANGES IN NET POSITION

- Other financing sources: Transfers-in/out without reimbursement decreased $35.1million (22 percent) overall. The change is attributed to an increase of $8.1 million related to Thunderdome prototype equipment being placed into use for production (0100), a decrease of $54.6 million related to projects completed and moved from GF CIP and transferred to WCF in FY 2023 (0300), and an increase of $12.1 million related to the transfer out of the finished Ft. Huachuca building to the Army in FY 2024 (0500)
- Other financing sources: Imputed financing from costs absorbed by others increased by $10.4 million (13 percent) overall. This is attributable to an increase of $10.1 million in the imputed cost for retirement, a decrease of $0.2 million in the imputed costs of judgment fund (Except for CDA/No FEAR), and an increase of $0.5 million in imputed costs real property.

STATEMENT OF BUDGETARY RESOURCES

Statement of Budgetary Resources (SBR) net outlays, reimbursements earned (receivable and delivered orders), and delivered orders unpaid[1] (obligations) are reconciled with their proprietary account counterparts (FBWT, account receivable, and account payable) respectively, and those variances are consistent with the variances described above. The results and variances of other key amounts reported in the SBR are as follows:

Figure 13-Statement of Budgetary Resources

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
O&M (0100)				
Obligations Incurred	$ 3,617,490	$ 3,354,090	$ 263,400	8%
Unobligated Balances	294,262	265,420	28,842	11%
Undelivered Orders	1,263,035	1,030,565	232,470	23%
Unfilled Customer Orders	(90,028)	(63,731)	(26,297)	41%
PROC (0300)				
Obligations Incurred	532,304	650,399	(118,095)	-18%
Unobligated Balances	233,675	214,721	18,954	9%
Undelivered Orders	543,603	600,897	(57,294)	-10%
Unfilled Customer Orders	(1,663)	(2,566)	903	-35%
RDT&E (0400)				
Obligations Incurred	342,141	287,006	55,135	19%
Unobligated Balances	88,917	157,498	(68,581)	-44%
Undelivered Orders	153,393	138,455	14,938	11%
Unfilled Customer Orders	(41,462)	(43,724)	2,262	-5%
MILCON (0500)				
Obligations Incurred	1,608	1,467	141	10%
Unobligated Balances	13,214	15,940	(2,726)	-17%
Undelivered Orders	3,150	8,478	(5,328)	-63%
Consolidated				
Obligations Incurred	$ 4,493,543	$ 4,292,962	$ 200,581	5%
Unobligated Balances	$ 630,068	$ 653,579	$ (23,511)	-4%
Undelivered Orders	$ 1,963,181	$ 1,778,395	$ 184,786	10%
Unfilled Customer Orders	$ (133,153)	$ (110,021)	$ (23,132)	21%

**Totals represent unfilled customer orders with and without advance*

[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 and 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) increase in obligations was driven by
  - A $219.1 million increase in rent, communications, utilities, and miscellaneous charges.
  - A $95 million increase in equipment.
  - A $46.3 million decrease in total obligations for unpaid undelivered orders.
- PROC (0300) decrease in obligations was driven by
  - A $119.1 million decrease in equipment.
  - A $64.2 million decrease in contractual advisory and assistance services.
  - A $59.4 million increase in contractual services for O&M of equipment.
- RDT&E (0400) increase in obligations was driven by
  - A $46.5 million increase in contractual services for research and development.
  - A $4.2 million increase in contractual advisory and assistance services.
  - A $3.1 million increase in full-time permanent personnel compensation.

Unobligated Balances

- O&M (0100) unobligated balance increase is driven by a $35.7 million increase in allotments – realized resources, and a $6.8 million decrease in allotments – expired authority.
- PROC (0300) unobligated balance increase is driven by a $25 million increase in allotments – expired authority, an $8 million decrease in allotments – realized resources, and a $2 million increase in commitments for programs subject to apportionment.
- RDT&E (0400) unobligated balance decrease is driven by a $61 million decrease in allotments – realized resources, and an $8.4 million decrease in allotments – expired authority.
- MILCON (0500) unobligated balance decrease is driven by a $2 million decrease in allotments – realized resources, and a $0.8 million decrease 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 of the statement of net cost (SNC) and net outlays, reported on a budgetary basis of the SBR. 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.

Figure 14-Reconciliation of Net Cost to Net Budgetary Outlays

(thousands)

DISA GF 2024 Unaudited	Intragov.	Public	Total
Net Cost of Operations (SNC)	$ 2,928,722	$ 471,137	$ 3,399,859
PP&E depreciation expense	-	(147,591)	(147,591)
PP&E disposals and revaluations	-	(130,952)	(130,952)
Lessee lease amortization	-	(3)	(3)
Applied overhead/cost capitalization offset			
PP&E	-	455,916	455,916
Increase/(Decrease) in Assets Not Affecting Budgetary Outlays:			
Accounts receivable, net	(24,388)	(832)	(25,220)
Advances and prepayments	-	(7)	(7)
(Increase)/Decrease in Liabilities Not Affecting Budgetary Outlays:			
Accounts payable	18,251	(3,048)	15,203
Federal employee salary, leave, and benefits payable	-	(4,730)	(4,730)
Veterans, pensions, and post-employment-related Benefits	-	217	217
Advances from others and deferred revenue	-	1,029	1,029
Other liabilities	(619)	(1,860)	(2,479)
Financing Sources			
Imputed cost	(91,952)	-	(91,952)
Total Components of Net Cost Not Part of Net Budgetary Outlays	(98,708)	168,139	69,431
Components of Net Budgetary Outlays Not Part of Net Cost			
Acquisition of capital assets	-	5,923	5,923
Financing Sources			
Transfers (in)/out without reimbursements	124,635	-	124,635
Total Other Reconciling Items	124,635	5,923	130,558
Total Net Outlays	$ 2,954,649	$ 645,199	$ 3,599,848
Budgetary Agency Outlays, Net (SBR)			$ 3,599,848
Unreconciled difference			$ -

Figure 15- Illustrative Table of Key Measures

(thousands)

DISA GF	9/30/2024	9/30/2023	Inc/Dec	% Chg.
COSTS				
Gross Program Costs	$ 3,683,447	$ 3,787,370	$ (103,923)	-3%
Less: Earned Revenue	(283,588)	(202,819)	(80,769)	40%
Net Cost of Operations	3,399,859	3,584,551	(184,692)	-5%
NET POSITION				
Assets:				
Fund Balance with Treasury	2,817,604	2,668,626	148,978	6%
Accounts Receivable, Net	8,856	32,582	(23,726)	-73%
PP&E, Net	508,704	325,145	183,559	56%
Advances and Prepayments	-	7	(7)	-100%
Total Assets	3,335,164	3,026,360	308,804	10%
Liabilities:				
Accounts Payable, Net	348,144	361,851	(13,707)	-4%
Federal Employee Salary, Leave, and Benefits Payable	55,499	50,769	4,730	9%
Veterans, Pensions, and Post Employment-Related Benefits	4,247	4,464	(217)	-5%
Advances from Others and Deferred Revenue	4,364	5,393	(1,029)	-19%
Other Liabilities	7,176	4,433	2,743	62%
Total Liabilities	419,430	426,910	(7,480)	-2%
Net Position (Assets minus Liabilities)	$ 2,915,734	$ 2,599,450	$ 316,284	12%

LIMITATIONS

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 Generally Accepted Accounting Principles (GAAP) and the formats prescribed by DDRS-B. 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.

3. Analysis of Systems, Controls, and Legal Compliance

Management Assurances

DISA, Office of the Chief Financial Officer (J8 -OCFO/Comptroller), has oversight of DISA's Risk Management and Internal Control (RMIC) Program. Agency assessable unit managers (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 conducts testing and reports on the overall Internal Controls Over Reporting - Financial Reporting (ICOR-FR) for the agency.

Reviews, testing, and evaluations are conducted to assess if the internal control structure is compliant with the components of the Government Accountability Office (GAO) Green Book objectives of operations, reporting, and compliance. DISA's senior management has reviewed and evaluated the system of internal controls in effect during the fiscal year as of the date of this memorandum, according to the guidance in OMB Circular No. A-123 and the 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, making adherence of Risk Management and Internal Controls not only the responsibility of management, but also every DISA employee. The concept of reasonable assurance recognizes that DISA's mission objectives are achieved, and managers must carefully consider the appropriate balance among risk, controls, costs, and benefits in our mission-support operations.

Too many controls can result in inefficiencies, while too few controls might increase risk to an unacceptable level. In that premise, 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. 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 reporting, operations, and compliance.

Based upon this evaluation establishing and integrating internal control into its operations in a risk-based and cost beneficial manner, DISA provides reasonable assurance that our internal controls over reporting, operations, and compliance are operating effectively. Reasonable assurance has been achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

DEFENSE INFORMATION SYSTEMS AGENCY
P. 0. BOX 549
FORT MEADE, MARYLAND 20755-0549

SEP 2 7 2024

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) 2024

As Director of the Defense Information Systems Agency (DISA), I recognize DISA is responsible for managing risks and maintaining effective internal controls 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 controls 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, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2024. As of July 31, 2024, there were six categories of material weaknesses (MWs) and Significant Deficiencies (SDs) that DISA is correcting or that have mitigating controls: Accounts Receivable/Revenue; Accounts Payable/Expense; Budgetary Resources; Fund Balance with Treasury; Financial Reporting; and Property, Plant and Equipment (PPE).

DISA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The *"Summary of Management's Approach to Internal Control Evaluation (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 September 30, 2024.

DJSA 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 also included an evaluation of the internal controls around our SAA activities. Based on the results of the assessment, DISA can provide assurance that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of September 30, 2024.

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 also included an evaluation of the internal controls around our activities. Based on the results of this assessment, DISA can provide assurance, except for one non-conformance reported in the *"Significant Deficiencies and Material Weaknesses Template"* that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2024.

DISA conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. 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 entity-level controls including fraud controls are operating effectively as of September 30, 2024.

DISA hereby reports that we discovered/identified no Anti-Deficiency Act (ADA) violations during our assessments of the applicable processes nor ADA violations have been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this Statement of Assurance for FY 2024, my point of contact is Mr. Justin Sponseller, at justin.c.sponseller.civ@mail.mil or (614) 692-0686.

ROBERT J. SKINNER
Lieutenant General, USAF
Director

Attachments:
As stated

FY 2024 Internal Control Program Initiatives and Execution

In addition to the foundational sources of guidance such as OMB Circular A-123 and the GAO Green Book, DISA also receives direction from and coordinates with the Office of Under Secretary of Defense Comptroller (OUSD [C]) to execute its Risk Management Internal Control (RMIC) Program. The OUSD Comptroller RMIC Team issued the FY 2024 DoD Statement of Assurance Handbook that requires deliverables throughout the reporting cycle. The handbook provides practical guidance to carry out the program. In FY 2023, there was an emphasis on Entity Level Controls (ELCs), auditor Notice of Findings and Recommendations (NFR), Corrective Action Plan (CAP) implementation and resolution, and testing to pave the way in support of CAP resolution or mitigation. This emphasis remains in FY 2024; however, there is more focus on integrating an agency Risk Profile that identifies risks and fraud that may potentially impact the agency's strategic objective.

Throughout the process, DISA has provided several templates and deliverables to support not only DISA, but the overall DoD RMIC Program. Throughout the year, DISA will have submitted an End-to-End Process Control Narrative Key Controls Memo, Agency Risk Assessment, Material Weakness (MW) and Deficiencies Reporting and Removal Template, Entity Level Control Testing Validation, Fraud Controls Matrix, Complementary User Control CAPs, Summary of Management's Approach to Internal Control Evaluation Template, and a DATA Act Data Quality Controls Matrix in support of the program.

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 2024, at the time of this memorandum, DISA has a potential to close 10 NFRs upon final review and approval by the independent public accounting firm (IPA).

Entity Level Controls (ELCs):

ELCs 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 emphasizes that there are significant interdependencies among the various control principles. ELCs represent the overarching management controls that create an environment of management oversight for the financial and non-financial activities of the department and DISA as an agency.

Enterprise Approach to Risk Management:

Each year, DISA kicks off its internal control program and begins by performing a risk assessment in which 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 adhered 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 environment of continuous improvement and process refinement. The RMIC Program is managed through a three-tiered approach, which provided a structure to identify risk at an enterprise level, as well as at a more granular level. DISA director provided a "tone-at-the-top" memo, which defined management's leadership and commitment towards an effective internal control structure.

The first tier is supported by DISA Senior Assessment Team (SAT), which provides guidance and oversight to the RMIC. The second tier is supported by 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 Assessable Unit Managers (AUMs) who manage at the program/directorate level within the organization. Each directorate's senior leadership, within each assessable unit, collaborated with AUMs to identify areas of risks in their respective area. The processes of coordinating and consolidating risk help identify the overall assessment of risk at the enterprise risk management level, while also reviewing DISA's detail transactions. This risk assessment results in reviews and letters of assurance from each area that are considered in the annual Statement of Assurance assessment.

Oversight and Monitoring:
DISA's internal control structure of training provided AUM assistance; ELCs; risk assessments; continuous testing in mandatory and high-risk areas; reviews, updates, and management approval of process narratives and cycle-memos; CAPs; and senior accountable officials (SOAs) letters of assurance. These elements are all core to an integral program of oversight and monitoring. In addition, the Senior Assessment Team (SAT) meets during 4th quarter and provides oversight to the internal control program through discussion of results and anticipated outcomes to be reported in the FY 2024 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, DFAS, as DISA's accounting service provider, performs overpayment recapture functions on behalf of DISA. DFAS includes DISA transactions in its sampling populations for improper payment testing of civilian payroll and travel. There have been no issues arising to merit an anticipated negative impact regarding payment integrity and improper payment recovery.

Component Risk Profile:
The risk profile is intended to facilitate strategic decision-making, including informing budget decisions, and enabling efficient resource allocation. DISA's Risk Profile is composed of the highest risks. DISA's risk profile was reviewed and approved by leadership.

Entity-Level Components (ELCs):
The use of Committee of Sponsoring Organizations (COSO) framework, to identify types of evidence to assess emerging technologies in the development of ELCs—including the Component's use of data and system design.

GAO FRM Framework Assessment:
To further align the fraud risk management requirements to the GAO FRM Framework, the Fraud Controls Matrix Template has been renamed to the "GAO FRM Framework Assessment".

CARES Act/COVID-19:
The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed on March 2, 2020,

(Public Law 116-136) and includes a military support response to the public health emergency domestically and internationally. 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. COVID19-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 2024. Identified 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).

Fraud Controls:
In FY 2024, DISA executed a fraud controls assessment on its environment. The review incorporated components of GAO Fraud Risk Management Framework 11 leading practices to detect gaps that require designing new or additional controls. These practices were employed in review of ICOR-O, ICOR-FR, and ICOR-FS for high-risk focus areas.

Data Act Data Quality Testing:
The OMB published memorandum 18-16, *Appendix A to OMB Circular A-123, Management of Reporting and Data Integrity Risk*, dated June 6, 2018, that outlines guidance for agencies to develop a Data Quality Plan (DQP) to achieve the objectives of the Data Accountability and Transparency Act (DATA) Act. DISA has established a DQP that provides an emphasis on a structure for data quality on financial data elements, procurement data reporting, data standardization, and data reporting. In FY 2024, in compliance with mandatory reviews, the internal control program has executed data quality testing to review data integrity. Testing results have documented that there are no major issues with the established attributes in both FYs 2023 and 2024.

Records Management:
While records management was not an OUSD focal area, DISA Records Management team and the Internal Control team coordinated together to incorporate a records management checklist into their processes. The results supported that DISA has established 100 percent coverage and accountability throughout the organization with appointments of Records Liaisons (RLs). As an agency, the Records Management Self-Assessment (RMSA) for the National Archives and Records Administration (NARA) and the 2021 Federal Electronic Records and Email Management Maturity Model Report (FEREM) for NARA are conducted.

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 DISA SAT, which provides guidance and oversight to the RMIC Program. In FY 2024, DISA director signed a “tone-at-the-top” memo that defines management’s leadership and commitment towards an effective RMIC: openness, honesty, integrity, and ethical behavior. The memo directed the agency to follow 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 throughout DISA by all levels of management and has a trickle-down effect on all employees.

The second tier is supported by a subject matter expert (SME) team. The team coordinated requirements with the OUSD comptroller regarding the RMIC Program, in addition to providing training, guidance, oversight, and review in accordance with directives to the AUMs. DISA provided internal control kick-off training for the AUMs in November 2023 and conducted three additional workshops in the FY 2024 reporting cycle to address risk assessments, testing grids, and letters of assurance. The RMIC team compiled assessable unit (AU) submissions for the agency's Statement of Assurance, facilitates information sharing between AUMs, consolidates results, and communicates outcomes to OUSD and agency leadership.

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 identifies the following AUMs:

- ✓ Chief Financial Officer/Comptroller (OCFO)
- ✓ Component and Acquisition Executive (CAE)
- ✓ Digital Capabilities and Security Center (DCSC)
- ✓ Chief of Staff (DDC)
- ✓ Joint Service Provider (JSP)
- ✓ Hosting and Compute Center (HACC)
- ✓ White House Situation Room (WHSR)
- ✓ Procurement Services Directorate (PSD)
- ✓ Enterprise Integration and Innovation Center (EIIC)
- ✓ White House Communications Agency (WHCA)
- ✓ Manpower & Personnel Directorate (formerly 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 property, plant, and equipment (PP&E) to identify the level of process documentation available and determine the associated risk of those functions. Additionally, AUMs are responsible for identifying and documenting the key controls within their AUs in accordance with DoD Instruction 5010.40. The internal control team documented processes and key controls for all ICOR-FR functions through detailed cycle memoranda and narratives. Each AU documents its key processes and risks on the Risk Assessment Template. The OCFO RMIC team advises 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. In addition, a checklist for records management was prepared by each AUM.

Each AU performed a risk assessment considering what is important to each area, such as those processes that may be high or medium risk and associated processes that are central to an area. It involves identifying the risk category (e.g., financial, compliance, operational, etc.); risk description (e.g., if policy is not implemented); overall impact, likelihood, risk rating, and control activities (such as review and documented policy); whether risks are mitigated or residual; overall likeliness; and residual risk rating, process documentation, and financial statement impact. At the AU level and across the agency, this process developed an overarching risk assessment, approved by senior leadership. From this process, tests are developed for those areas that are high risk or into which management should look further.

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 included 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.

Test Results:
After the tests are conducted and results are revealed, the test grid forms the basis to report the results in the Letter of Assurance (LoA). The LoA will reflect the data reported on the test grid.

Internal Control Currently In Place (Control Objective)	Control Criteria	Control Type	Control Frequency	Tolerance Rate	Test Plan (Description)	Test Type	Sample Size	Summary of Test Results	Significant Deficiency?	Material Weakness?

A. Travel (DTS):

a. Test Plan Description: Describe how your organization conducted testing (consider the nature, extent including sampling technique) and timing of the execution of the control tests:
b. Did you use a checklist?
c. Test Type: Test method (inquiry, observation, inspection, or re-performance):
d. Sample size: Sample size/sampling technique/tolerance rate:
e. Internal Control Currently in Place Describe control(s):
f. Summarize test results:
g. Describe any findings, significant deficiencies or material weaknesses:
h. If any significant deficiencies or material weaknesses were identified, was a Corrective Action Plan (CAP) prepared?
i. Level of Assurance (*unmodified, modified, or no assurance*):

*LOA information should reflect the data reported on your test grids

Snapshot in Review

Internal Controls Over Reporting - Operations
Mandatory testing is required for all organizations. In coordination with senior management, AUMs 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. Government Purchase Card and Records Management are 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 provided reliable and timely information for managing day-to-day operations, as well as information used to prepare financial statements and maintain effective internal controls. These factors are key indicators of FFMIA compliance.

Additionally, DISA provided application hosting services for the department's service providers: the

Defense Finance and Accounting Service (DFAS), the Defense Logistics Agency (DLA), the Defense Contract Management Agency (DCMA), the Defense Human Resource Activity (DHRA), military services, and other defense organizations. As a result, DISA is responsible for most of the general IT controls over the computing environment in which many financial, personnel, and logistics applications reside. For service providers and components to rely on automated controls and documentation within these applications, controls must be appropriately and effectively designed.

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 analyses of the results of financial operations, and known upcoming business events. An internal control assessment was conducted within DISA for key mission-specific processes. The internal control team annually reviews and updates narratives and cycle memos of key processes. The internal control team maintains a Control Evaluation Matrix, which provided a detailed analysis, documents the Control Activities identified in the narratives, and included mapping to a Financial Improvement and Audit Readiness (FIAR) Financial Reporting Objective; FIAR Risk of Material Misstatement, Test of Design, and Implementation Effectiveness details; and test of Operating Effectiveness details.

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 16-Areas of Testing

General Fund	Working Capital Fund	Other
Data Quality Plan	One Fund Trial Balance (Rollforward) Testing	Active Users
Dormant Reviews	One Fund TELECOM Revenue	Departed Users
Year End Obligations	One Fund Non-TELECOM Revenue	Periodic User Access Review (UAR) Testing
GF Trial Balance (Rollforward) Testing	One Fund TELECOM Expenditure	PP&E Activation, CIP, and Transfer Testing
GF Revenue	One Fund Non-TELECOM Expenditure	
GF Expenditure		
CARES Act Testing		

The OUSD FIAR Office led department-wide discussions regarding SSAE 18 reviews and the impact to component financial statements. DISA identified more than 194 Complementary User Entity Controls (CUECs) that impacted 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 194 identified CUECs to determine our level of risk and identified control descriptions and attributes for each. For those CUECs determined to be common across all the identified systems, testing was conducted for areas of high risk. In addition, the internal control team has developed active and departed user segregation of duties and periodic access system reviews to a more granular level. Review of these areas further strengthens the internal control backbone for the agency. The following tables provides a summary of DISA's approach to the FY 2024 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)
- Digital Capabilities and Security Center (DCSC)
- Chief of Staff (DDC)
- Joint Service Provider (JSP)
- Hosting and Compute Center (HACC)
- White House Situation Room (WHSR)
- Procurement Services Directorate (PSD)
- Enterprise Integration and Innovation Center (EIIC)
- White House Communications Agency (WHCA)
- Manpower & Personnel Directorate (formerly 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.

Figure 17-Overall Assessment of a System of Internal Control

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

Figure 18-Overal Evaluation of a System of Internal Control

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

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 DoD, which facilitates 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 2024, DISA continued to operate, enhance, and sustain the Financial Accounting and Management Information System (FAMIS), which supports the full breadth of DISA's WCF lines of business. The FAMIS-WCF solution provided DISA with DoD Standard Line of Accounting and USSGL compliance in support of a clean audit opinion for the WCF. Additionally, FAMIS deployed the first phase of the future state compliant telecom Business Enterprise Architecture (BEA) solution. This solution enables DISA to begin the sunset activity of legacy telecom systems and provides a compliant and automated solution that complies with DoD policies. FAMIS continued to maintain a strong security posture, receiving a 3-Year Authority to Operate (ATO). Additional capabilities and modernizations deployed into FAMIS included enhanced automation and reconciliation of core cash matching functionalities, enabling DISA’s WCF to achieve and maintain its record of zero unmatched disbursements.

This fiscal year also introduced FAMIS-as-a-Service (FaaS). The program is migrating DISA's General Fund business out of the Defense Agencies Initiative (DAI) solution and into FAMIS. The implementation of FaaS across both DISA’s WCF and GF will improve operational efficiencies, ensure data integrity, and support compliance of financial standards while leveraging the capabilities of the existing FAMIS baseline. Go-live operational capability for DISA’s GF is scheduled in October 2024. Finally, FAMIS began laying the groundwork to migrate to a commercial cloud environment.

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 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 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.

In that regard, DISA continues to standardize the customer order provisioning process to include a single integrated order entry solution for all orders while validating the solutions that integrate with DISA’s financial and contracting systems and tools. DISA’s financial systems strategy is purpose driven to continually innovate and increase its use of technologies, such as robotic process automation and 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 four years, its accounting operations have stabilized, and it is taking advantage of its 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.

One example of this modernization is the current undertaking to accredit and stand up a new financial system called the DISA Integrated Management and Execution System (DIMES). DIMES is an Enterprise Performance Management (EPM) solution based on the OneStream platform that supports budgeting, forecasting, financial reporting, and data quality management. By October 2024, DISA will implement the budget execution phase of the project supporting spend planning; subsequent phases to include budget formulation and reporting are targeted to go-live by FY 2026. Once completed, DIMES will be the single platform for users to access budget formulation and execution data for both the GF and WCF and as such, will replace DFMS and DBS (DISA Financial Management System and DWCF Budgeting System).

These advancements will result in increased automation, transparency, access, and control of financial information to support financial managers, mission partners, and higher echelon leaders.

4. Forward-Looking Information

The DoD information environment is designed to optimize the 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 DoD information environment through the development, integration, and synchronization of 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 DISN, and the 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 Joint Information Environment, DISA data centers have been identified as continental United States (CONUS) Core Data Centers.

DISA is pursuing one Performance Improvement Initiative (PII) related to services offered in the Information Services Activity Group (ISAG) portfolio. This budget includes support of the "Joint Service Provider (JSP) Help Desk Modernization" effort in which tools to improve IT service management performance are being provided on a reimbursable basis. We continue to move forward on several new initiatives, including:

- The implementation of Defense Enterprise office Solutions, which is a commercially provided, cloud-based enterprise service for common communication, collaboration, and productivity services. There has been significant progress towards decommissioning legacy email, video, and audio-conferencing services.
- The Fourth Estate Network Optimization reform initiative includes the convergence of the DoD networks, service desks, and operations centers into a consolidated, secure, and effective environment.
- The delivery of an on-premises, cloud hosting capability and commercial cloud access infrastructure to enable the department's migration to cloud computing, a reduced data center footprint, and streamlined cybersecurity infrastructure.
- Includes efforts to modernize the management of the network backbone by moving network management tools to the commercial cloud; moving to cloud-based platforms allowing the network operator to gain access to accurate and real time data which allows more timely decisions to support the warfighter.
- Implementation of the Joint Warfighting Cloud Capability (JWCC) which is a multiple award contract vehicle providing the DoD with direct access to multiple Cloud Service Providers (CSPs) to acquire commercial cloud capabilities and services at the speed of mission-at all classification levels- from headquarter to the tactical edge. Direct awards with the CSPs also allows for streamlined provisioning of cloud services, fortified security, and commercial pricing parity.

DISA has implemented the Compute Operations (formerly 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 Compute Operations prioritizes excellence in service delivery, process efficiency, and standardization for tools and processes. Ultimately, the shift to the Compute Operations 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 have yielded a savings of $717 million over 10 years.

Defense Information Systems Agency
General Fund
Principal Statements
Fiscal Year 2024, Ending Sept. 30, 2024

Department of Defense
Defense Information Systems Agency GF
Balance Sheet
As of Sept. 30, 2024 and 2023
($ in thousands)

Figure 19-Balance Sheet

	2024 Unaudited	2023 Unaudited
Intragovernmental assets:		
Fund Balance with Treasury (Note 2)	$ 2,817,604	$ 2,668,626
Accounts receivable, Net (Note 3)	8,244	31,138
Total Intragovernmental Assets	2,825,848	2,699,764
Other than intragovernmental assets:		
Accounts receivable, net (Note 3)	612	1,444
General and Right-to-Use property, plant and equipment, net (Note 4)	508,704	325,145
Advances and prepayments	-	7
Total other than intragovernmental assets	509,316	326,596
Total Assets	$ 3,335,164	$ 3,026,360
Liabilities (Note 7)		
Intragovernmental liabilities:		
Accounts payable	$ 335,167	$ 351,921
Other Liabilities (Notes 7 and 9)	3,264	2,646
Total intragovernmental liabilities	338,431	354,567
Other than intragovernmental liabilities:		
Accounts payable	12,977	9,929
Federal employee salary, leave, and benefits payable (Note 6)	55,499	50,769
Pension, post-employment, and Veteran Benefits payable (Note 6)	4,247	4,464
Advances from others and Deferred Revenue	4,364	5,393
Other Liabilities (Notes 7, 8, and 9)	3,912	1,787
Total other than intragovernmental liabilities	80,999	72,343
Total liabilities	$ 419,430	$ 426,910
Commitments and contingencies (Note 9)		
Net Position:		
Unexpended Appropriations-Funds from Other than Dedicated Collections	$ 2,477,633	$ 2,333,094
Total Unexpended Appropriations (Consolidated)	2,477,633	2,333,094
Cumulative Results from Operations-Funds from Other than Dedicated Collections	438,101	266,356
Total Cumulative Results of Operations (Consolidated)	438,101	266,356
Total Net Position	2,915,734	2,599,450
Total Liabilities and Net Position	$ 3,335,164	$ 3,026,360

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

Department of Defense
Defense Information Systems Agency GF
Statement of Net Cost
For the Years Ended Sept. 30, 2024 and 2023
($ in thousands)

Figure 20-Statement of Net Cost

Gross Program Costs		2024 Unaudited		2023 Unaudited
Gross Costs	$	3,683,447	$	3,787,370
Less: Earned Revenue		(283,588)		(202,819)
Net Cost of Operations	$	3,399,859	$	3,584,551

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

Department of Defense
Defense Information Systems Agency GF
Statement of Changes in Net Position
For the Years Ended Sept. 30, 2024 and 2023
($ in thousands)

Figure 21-Statement of Changes in Net Position

CUMULATIVE RESULTS OF OPERATIONS	2024 Unaudited	2023 Unaudited
Unexpended Appropriations	$ 2,333,094	$ 2,345,346
Appropriations received	3,895,913	3,693,211
Appropriations transferred-in/out	(25,515)	51,437
Other adjustments (+/-)	(119,598)	(93,190)
Appropriations used	(3,606,260)	(3,663,710)
Change in Unexpended Appropriations	144,540	(12,252)
Total Unexpended Appropriations	2,477,634	2,333,094
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning balances, as adjusted	266,356	276,943
Other adjustments (+/-)	-	-
Appropriations used	3,606,260	3,663,710
Transfers-in/out without reimbursement	(126,608)	(161,804)
Imputed financing	91,952	81,529
Other	-	(9,471)
Net Cost of Operations	3,399,859	3,584,551
Change in Cumulative Results of Operations	171,745	(10,587)
Cumulative Results of Operations: ending	438,101	266,356
Net Position	$ 2,915,735	$ 2,599,450

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

Department of Defense
Defense Information Systems Agency GF
Statement of Budgetary Resources
For the Years Ended Sept. 30, 2024 and 2023
($ in thousands)

Figure 22-Statement of Budgetary Resources

	2024 Unaudited	2023 Unaudited
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 903,297	$ 978,149
Appropriations (discretionary and mandatory)	3,898,438	3,754,339
Spending Authority from offsetting collections	321,876	214,053
Total Budgetary Resources	$ 5,123,611	$ 4,946,541
Status of Budgetary Resources		
New obligations and upward adjustments (total) (Note 11)	$ 4,493,543	$ 4,292,962
Apportioned, unexpired accounts	279,261	311,778
Unapportioned, unexpired accounts	-	-
Unexpired unobligated balance, end of year	279,261	311,778
Expired unobligated balance, end of year	350,807	341,801
Unobligated balance, end of year (total)	630,068	653,579
Total Budgetary Resources	$ 5,123,611	$ 4,946,541
Outlays, Net (Note 12)		
Outlays, net (total) (discretionary and mandatory)	3,599,848	3,638,463
Agency Outlays, net (discretionary and mandatory)	$ 3,599,848	$ 3,638,463

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

Defense Information Systems Agency
General Fund
Notes to the Principal Statements
Fiscal Year 2024, Ending Sept. 30, 2024

Note 1. Reporting Entity and Summary of Significant Accounting Policies

1A. Reporting Entity

The Defense Information Systems Agency (DISA), a combat support agency within the DoD, is a "Component Reporting Entity," as defined by Statement of Federal Financial Accounting Standards (SFFAS) 47 of and consolidated into the financial statements of the Department of Defense (DoD).

The DoD includes the Office of the Secretary of Defense (OSD), Joint Chiefs of Staff, DoD Office of the Inspector General (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 and reflects the DoD Chief Information Officer (CIO) capability planning guidance.

In accordance with SFFAS 47, DISA General Fund (GF) does not have any consolidation, related party or disclosure entities that are required to be disclosed within these notes. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities. Disclosure entities are not consolidation entities. Disclosure entities may provide the same or similar goods and services that consolidation entities do but are more likely to provide them on a market basis.

1B. Accounting Policies

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), 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 (SBR) 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.

DISA GF adopted updated accounting standards and other authoritative guidance issued by the Federal Accounting Standards Advisory Board (FASAB) as listed below:

- *SFFAS 50: Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued Aug. 4, 2016. Effective for periods beginning after Sept. 30, 2016.
- *SFFAS 53: Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding*

SFFAS 22: Issued Oct. 27, 2017: Effective for reporting periods beginning after Sept. 30, 2018.

- *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 April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under *SFFAS 58*, *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19, 2020. Early adoption is not permitted. For additional information, see *SFFAS 60*, *Omnibus Amendments 2021: Leases-Related Topics Technical Release 20*, *Implementation Guidance for Leases, and Technical Bulletin 2023-1, Intragovernmental Leasehold Reimbursable Work Agreements*.
- *Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables:* Issued Feb. 20, 2020; Effective upon issuance.

DISA GF has implemented Standard Financial Information Structure compliant accounting systems and improved processes based on independent reviews and compliance with Office of Management and Budget (OMB) Circular No. A-136 and U.S. Generally Accepted Accounting Principles (GAAP).

In FY 2024, DISA adopted the reporting guidelines of SFFAS 54, detailing the recognition of right-to-use lease assets and the corresponding lease liabilities. These reports pertain to non-intragovernmental and non-short-term contracts where DISA retains exclusive rights to specific transoceanic cables that facilitate network and telecommunication services acquired through communication service authorizations (CSAs) within the optical transport network.

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.

1C. 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. DISA GF 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, and the Department of State's financial service centers process the majority of the Department of Defense's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

FBWT 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 Treasury by appropriation on interagency transfers, collections received, and disbursements issued. Treasury records these transactions to its applicable Fund Balance.

DISA GF does not report deposit fund balances on its financial statements. For additional information, see the *Fund Balance with Treasury, Note 2.*

1D. 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 appropriations that are provided on a permanent basis. The financial transactions resulting from the budget process are generally the same transactions reflected in the agency and the government-wide financial reports.

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

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

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

DISA GF receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for the (Working Capital Fund) WCFs. These funds either expire annually, some on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. DISA 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.

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

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

In accordance with SFFAS 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 composed 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 that 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.

1E. Budgetary Terms

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The department’s budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but do not reflect assets to the government. 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 have incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements.

The following budgetary terms are commonly used:

- Appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- Obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- Offsetting collections are payments to the government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the government and from intragovernmental transactions with other government accounts. The authority to spend collections is a form of budget authority.
- Offsetting receipts are payments to the government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, gifts or donations of money to the government, and from intragovernmental transactions with other government accounts.
- Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of government spending.

For further information about budget terms and concepts, see the "Budget Concepts" chapter of the *Analytical Perspectives* volume of the President's Budget: Analytical Perspectives - The White House.

1F. Changes in Entity or Financial Reporting

Section 406 -Intra-Governmental Capitalized Assets Procedures, of the quarterly reporting guidance was updated for fourth quarter of Fiscal Year (FY) 2023 to require agencies to record all direct cost to an expense series account and then offset those amounts using U.S. Standard General Ledger (USSGL) 6610 when the costs are capitalized to the appropriate asset account. Per this updated guidance, the DISA GF will no longer record federal USSGL 8802. This update was designed to avoid a systemic cost of goods sold (USSGL 6500) entry for the selling agency, which does not typically recognize inventory. This process change does not affect prior financial statements, only reconciles interagency expenses and revenues for fourth quarter of FY 2023 and forward.

1G. Classified Activities

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

1H. Parent-Child Reporting

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

DISA receives allocation transfers from the Defense Acquisition University.

1I. Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2023 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2024 presentation. The mapping of U.S. Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, *Section V*. The footnotes affected by the modified presentation are *Federal Employee and Veteran Benefits Payable*, *Other Liabilities*, and *Reconciliation of Net Cost to Net Outlays*.

Note 2. Fund Balance with Treasury

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 GF balances with treasury consists of appropriation accounts.

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

Unobligated balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance consists primarily of funds invested in Treasury 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 laws establishing 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 accounts.

Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budget authority, such as appropriations. The

DISA GF non-FBWT budgetary accounts are primarily composed of unfilled orders without advance from customers and receivables.

Treasury securities provide DISA GF with budgetary authority and enable 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.

Unfilled customer orders without advance – receivables provide budgetary resources when recorded. The FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

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 23-Fund Balance with Treasury

(thousands)

DISA GF	2024 Unaudited	2023 Unaudited
Unobligated Balance:		
Available	$ 279,261	$ 311,777
Unavailable	350,806	341,802
Total Unobligated Balance	$ 630,067	$ 653,579
Obligated Balance not yet Disbursed	2,325,040	2,152,305
Non-FBWT Budgetary Accounts:		
Unfilled Customer Orders without Advance	(128,788)	(104,628)
Receivables and Other	(8,715)	(32,630)
Total Non-FBWT Budgetary Accounts	$ (137,503)	$ (137,258)
Total FBWT	$ 2,817,604	$ 2,668,626

Note 3. Accounts Receivable, Net

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 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 2023, the intragovernmental allowance was calculated using the same methodology as for public receivables. DISA GF developed its policy related to the allowance for uncollectible accounts for intragovernmental receivables.

For FY 2024, DFAS changed the methodology for calculating the Allowance for Doubtful Accounts and has determined that the intragovernmental and non-federal amounts for DISA GF is $0.

Figure 24-Accounts Receivable, Net

(thousands)

DISA GF 2024 Unaudited	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 8,244	$ -	$ 8,244
Non-Federal Receivables (From the Public)	612	-	612
Total Accounts Receivable	$ 8,856	$ -	$ 8,856

DISA GF 2023 Unaudited	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 31,138	$ -	$ 31,138
Non-Federal Receivables (From the Public)	1,443	1	1,444
Total Accounts Receivable	$ 32,581	$ 1	$ 32,582

Note 4. General and Right-to-Use Property, Plant, and Equipment, Net

The DISA GF general and right-to-use Property, Plant and Equipment (PP&E) is composed of right-to-use lease assets, construction-in-progress, equipment, and software with a net book value of $508.7 million.

The DISA GF PP&E consists of telecommunications equipment, computer equipment, computer software, right-to-use lease assets, and construction-in-progress.

The DISA GF capitalizes improvements to existing general and right-to-use PP&E assets when the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset.

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

Information concerning deferred maintenance and repairs is discussed in unaudited required supplementary information.

Starting in FY 2024, Federal reporting entities are required to report a right-to-use lease asset and a lease liability for non-intragovernmental, no-short-term contracts or agreements, when the entity has the right to obtain and control access to economic benefits or services from an asset under the terms of the contract or agreement.

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

Figure 25-General and Right-to-Use Property, Plant, and Equipment, Net

(thousands)

DISA GF	2024 Unaudited	2023 Unaudited
General and Right-to-use PP&E, Net beginning of year unadjusted	$ 325,145	$ 326,365
Effects of implementation of SFFAS 54	-	-
Balance beginning of year, adjusted	$ 325,145	$ 326,365
Capitalized Acquisitions	461,839	256,291
Right-to-use lease assets, CY activity	266	-
CY Amortization of right-to-use lease assets	(3)	-
Dispositions	(6,076)	(9,589)
Transfers in/(out) without reimbursement	(124,635)	(159,335)
Revaluations (+/-)	-	(5,615)
Depreciation Expense	(147,591)	(82,972)
Other	(241)	-
Balance at end of year	$ 508,704	$ 325,145

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 26-Major General and Right-to-Use PP&E Asset Classes

(thousands)

DISA GF 2024 Unaudited Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Software	S/L	2-5 or 10	$ 39,417	$ (32,844)	$ 6,573
General Equipment	S/L	Various*	806,335	(536,210)	270,125
Right-to-Use Lease Asset	S/L	Lease term	274	(3)	271
Construction-in-Progress	N/A	N/A	231,735	N/A	231,735
Total General and Right-to-Use PP&E			$ 1,077,761	$ (569,057)	$ 508,704

DISA GF 2023 Unaudited Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Software	S/L	2-5 or 10	$ 42,711	$ (28,852)	$ 13,859
General Equipment	S/L	Various*	591,877	(426,604)	165,273
Right-to-Use Lease Asset	S/L	Lease term	-	-	-
Construction-in-Progress	N/A	N/A	146,013	N/A	146,013
Total General and Right-to-Use PP&E			$ 780,601	$ (455,456)	$ 325,145

S/L= Straight Line N/A= Not Applicable

*GF uses 5 years for depreciation, unless otherwise specified (10/20 years). DISA follows the FMR Vol. 4 Ch. 25 Table 25-2 for useful life unless specifically stated in contract documents.

Note 5. Liabilities Not Covered by Budgetary Resources

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, Treasury 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 $844 thousand of unfunded Federal Employees' Compensation Act (FECA) liabilities related to bills from the Department of Labor (DOL) that are not funded until the billings are received.

Other than intragovernmental liabilities consist of federal employee and veteran benefits, which include $44.5 million in unfunded annual leave liability reflecting earned amounts of annual leave to be paid from future appropriations, and $4.2 million in various employee actuarial FECA liabilities not due and payable during the current fiscal year. It also includes $3.6 million in for legal contingent liabilities, $266 thousand for unfunded lessee lease liability, and $218 thousand in accounts payable from canceled appropriations. Refer to the Current and Former Employee and Veterans Benefits Payable note, for additional details.

Figure 27-Liabilities Not Covered by Budgetary Resources

(thousands)

DISA GF	2024 Unaudited	2023 Unaudited
Intragovernmental Liabilities		
Other	$ 844	$ 771
Total Intragovernmental Liabilities	$ 844	$ 771
Other than Intragovernmental Liabilities		
Accounts Payable	218	69
Federal employee and veteran benefits payable	48,702	46,465
Other Liabilities	3,912	1,787
Total Other than Intragovernmental Liabilities	$ 52,832	$ 48,321
Total Liabilities Not Covered by Budgetary Resources	53,676	49,092
Total Liabilities Covered by Budgetary Resources	365,754	377,818
Total Liabilities	$ 419,430	$ 426,910

Note 6. Current and Former Federal Employee and Veterans Benefits Payable

Expense Components

For FY 2024, 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 $8.9 million in total, of which $4.2 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 DISA by DOL will cause changes in FECA liability. The other actuarial benefits, FECA liability for DISA GF, decreased $217 thousand due to a decrease in COLA and CPI-M inflation factors that in turn increased the actuarial liability estimate provided by DOL (https://www.dol.gov/agencies/ocfo/publications).

Other Benefits

For the fourth quarter of FY 2024, DISA GF's "other" benefits are composed of unfunded accrued annual leave in the amount of $44.5 million.

SFFAS 5, Accounting for Liabilities of the Federal Government, is not applicable to DISA as it is not an administrative entity.

Figure 28-Current and Former Employee and Veterans Benefits Payable

(thousands)

DISA GF 2024 Unaudited	**Liabilities**	**(Assets Available to Pay Benefits)**	**Unfunded Liabilities**
Other Benefits			
FECA	$ 4,247	$ -	$ 4,247
Other	55,499	(11,044)	44,455
Total Other Benefits	59,746	(11,044)	48,702
Federal Employee and Veterans Benefits Payable	59,746	(11,044)	48,702
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	3,264	(2,420)	844
Total Federal Employee and Veterans Benefits Payable	$ 63,010	$ (13,464)	$ 49,546

DISA GF 2023 Unaudited	**Liabilities**	**(Assets Available to Pay Benefits)**	**Unfunded Liabilities**
Other Benefits			
FECA	$ 4,464	$ -	$4,464
Other	50,769	(8,767)	42,002
Total Other Benefits	55,233	(8,767)	46,466
Federal Employee and Veterans Benefits Payable	55,233	(8,767)	46,466
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	2,646	(1,875)	771
Total Federal Employee and Veterans Benefits Payable	$ 57,879	$ (10,642)	$47,237

Note 7. Other Liabilities

DISA GF Intragovernmental Other Liabilities consist of:

- Current and former employee and veterans benefits payable of $3.3 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:

- Legal contingent liabilities of $3.6 million: The contingent liability records the amount of liability recognized as a result of past events or exchange transactions in which a future outflow or other sacrifice of resources is both probable and measurable. A quarterly analysis is performed to determine the pending/threatened litigation and unasserted claims, administrative or judicial proceedings, lawsuits, and/or other legal actions filed against DISA that could ultimately result in settlements.

- Right-to-use lease liability of $266 thousand: This liability records the amount of unfunded liability for future lease payments. Refer to the *Leases* note for additional details.
- Advances from others (presented separately on the Advances from Others and Deferred Revenue line below) of $4.4 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.

DISA GF's life and other insurance programs covering civilian employees are provided through the U.S. 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 2024 Unaudited	**Current Liability**	**Non-Current Liability**	**Total**
Intragovernmental			
Other Liabilities reported on *Federal Employee and Veterans Benefits Payable Note*	$ 2,721	$ 543	$ 3,264
Total Intragovernmental	2,721	543	3,264
Other than Intragovernmental			
Contingent Liabilities	-	3,646	3,646
Right-to-Use Lease Liability	-	266	266
Total Other than Intragovernmental	-	3,912	3,912
Total Other Liabilities	$ 2,721	$ 4,455	$ 7,176

DISA GF 2023 Unaudited	**Current Liability**	**Non-Current Liability**	**Total**
Intragovernmental			
Other Liabilities reported on *Federal Employee and Veterans Benefits Payable Note*	$ 2,207	$ 439	$ 2,646
Total Intragovernmental	2,207	439	2,646
Other than Intragovernmental			
Contingent Liabilities	-	1,787	1,787
Right-to-Use Lease Liability	-	-	-
Total Other than Intragovernmental	-	1,787	1,787
Total Other Liabilities	$ 2,207	$ 2,226	$ 4,433

Figure 30-Advances from Others and Deferred Revenue

(thousands)

DISA GF	2024 Unaudited	2023 Unaudited
Other than Intragovernmental Liabilities	$ 4,364	$ 5,393
Total Intragovernmental Liabilities	$ 4,364	$ 5,393

Note 8. Leases

In FY 2024, DISA adopted the reporting guidelines of SFFAS 54, detailing the recognition of right-to-use lease assets and the corresponding lease liabilities. According to SFFAS 54, a lease is characterized as a contractual arrangement in which one party (the lessor) grants another party the right to control the use of property, plant, and equipment (PP&E), identified as the underlying asset.

DISA GF has intragovernmental leases for office equipment, vehicles, land and buildings, commercial space, and telecommunications. The largest portion of these costs are reimbursements to the Pentagon Reservation Maintenance Fund. The agency does not receive copies of leases but obtains individual occupancy agreements and is billed at a cost based on the space DISA is occupying. Prior year tables for future minimum lease payments are not presented. Occupancy agreements are also held with Washington Headquarters Service, or the General Services Administration (GSA) based upon the space DISA GF is occupying.

DISA has elected to execute the embedded lease accommodation through Sept. 30, 2026, in accordance with paragraph 96A-96E of SFFAS-54.

Land and Building Leases

As of Sept. 30, 2024, DISA GF operates in 12 locations, of which 6 sites are on property (primarily military bases) where no rent is charged and only utilities are required. The GSA acquires and manages commercial property leases on behalf of the federal government; therefore, this lease is considered federal. This lease requires DISA GF to pay property taxes, utilities, security, custodial services, parking, and operating expenses. Certain leases contain renewal options.

DISA GF reimburses WCF for two non-federal, long-term (greater than 24 months) lease arrangements each with a five-year lease term. These include an agreement for two data centers (located in Miami, FL, and Culpeper, VA) and one ground facility agreement supporting bandwidth services. Annual lease expense for building leases for FY 2024 is $45.2 million.

Equipment Leases

Equipment leases are leases for photocopiers, printers, digital press system, audio visual equipment, forklift, and vehicles. DISA GF currently leases 29 equipment leases located across various sites. The photocopiers are leased for three years, while the vehicles are leased for one year with annual renewal options.

DISA GF reimburses WCF for one non-federal, long-term lease arrangement for a multifunction printer that is being leased for three years. Annual lease expense for equipment leases for FY 2024 is $2.7 million.

DISA GF is recognizing one right-to-use asset, which is a non-federal, long-term lease arrangement for a multifunction printer with a lease term of three years.

Other Leases

Other leases are leases for secured space and antennas. DISA GF currently leases 16 of these agreements. Annual lease expense for other leases for FY 2024 is $4.7 million.

Telecommunication Leases

DISA GF enters into telecommunication contracts with DISA WCF for telecommunication services acquired through communication service authorizations (CSAs). The services may encompass circuit connectivity, often utilizing a physical component known as a "trunk." These trunks, which form the basis of the circuit connection, are considered the underlying assets essential for lease accounting. As of Sept. 30, 2024, DISA has a total of 14 intragovernmental CSA arrangements as a lessee with the DISA WCF. Annual lease expense for telecommunication leases for FY 2024 is $273 thousand.

The following table provides the current right-to-use asset cost and accumulated amortization as of Sept. 30, 2024, for leases other than (1) short-term leases, (2) contracts or agreements that transfer ownership, and (3) intragovernmental agreements:

Figure 31-Right-to-Use Asset Net Book Value

(thousands)

Right-to-Use Asset	Accumulated Amortization	Net Book Value
$ 274	$ 3	$ 271

The following table provides future lease payments, as of Sept. 30, 2024, for leases other than (1) short-term leases, (2) contracts or agreements that transfer ownership, and (3) intragovernmental agreements:

Figure 32-Future Payments Right-to-Use Leases

DISA GF 2024 Unaudited Asset Class: Equipment (Non-Federal)			
	Principal	**Interest**	**Total**
Fiscal Year			
2025	$ 88	$ 8	$ 96
2026	92	5	97
2027	86	1	87
2028	-	-	-
2029	-	-	-
2030- 2034	-	-	-
Total	$ 266	$ 14	$ 280

The following is a summary of the range of interest rates used to calculate the lease liability. These are based on marketable Treasury securities of similar maturity to the term of the lease. Interest rates are rounded down to the nearest maturity:

Figure 33-Interest Rate Range

Term in Years	Interest rate range
3	3.375% - 4.625%

DISA GF does not currently have any intragovernmental or any non-federal lessor arrangements.

Note 9. Commitments and Contingencies

DISA 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 equal opportunity and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the *Treasury Judgment Fund*. In most cases, DISA GF does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the *Contracts Disputes Act* or the *No FEAR Act*.

In accordance with *SFFAS 5, Accounting for Liabilities of the Federal Government, as amended by SFFAS 12, Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote.

DISA GF has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable, and the amount of potential loss is measurable. The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized, and the range is disclosed. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in the *Other Liabilities* note.

For the fourth quarter of FY 2024, DISA GF recognizes $3.6 million of legal contingent liability as a result of past events or exchange transactions in which a future outflow or other sacrifice of resources is both probable and measurable. A quarterly analysis is performed to determine the pending/threatened litigation and unasserted claims, administrative or judicial proceedings, lawsuits, and/or other legal actions filed against DISA that could ultimately result in settlements.

Note 10. Suborganization Program Costs

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

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.

DISA GF employs a trading partner reconciliation throughout the year to validate buyer-side and seller- side balances and collaborates with its major DoD partners to identify and resolve material differences. Generally, in accordance with DoD Financial Management Regulation (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 34-Costs and Exchange Revenue by Major Program

(thousands)

DISA GF	2024 Unaudited	2023 Unaudited
Operations, Readiness & Support		
Gross Cost	$ 3,160,110	$ 3,017,914
Less: Earned Revenue	(247,105)	(165,328)
Net Program Costs	2,913,005	2,852,586
Procurement		
Gross Cost	240,677	382,136
Less: Earned Revenue	(1,182)	(9,953)
Net Program Costs	239,495	372,183
Research, Development, Test & Evaluation		
Gross Cost	283,334	386,145
Less: Earned Revenue	(35,301)	(27,538)
Net Program Costs	248,033	358,607
Family Housing & Military Construction		
Gross Cost	(674)	1,175
Net Program Costs	(674)	1,175
Consolidated		
Gross Cost	3,683,447	3,787,370
Less Earned Revenue	(283,588)	(202,819)
Total Net Cost	$ 3,399,859	$ 3,584,551

Note 11. Statement of Budgetary Resources

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

As of Sept. 30, 2024, DISA GF incurred $4.5 billion in obligations, of which $362.5 million are reimbursable, $4.1 billion are direct and none of which are exempt from apportionment.

The total unobligated balance available as of Sept. 30, 2024, is $630.1 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 SBR includes intra-entity transactions because the statements are presented as combined.

As of Sept. 30, 2024, DISA GF's net amount of budgetary resources obligated for undelivered orders is $2 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 35-Budgetary Resources Obligated for Undelivered Orders at the End of the Period

(thousands)

DISA GF	2024 Unaudited	2023 Unaudited
Intragovernmental		
Unpaid	$ 1,856,417	$ 1,683,060
Total Intragovernmental	1,856,417	1,683,060
Non-Federal		
Unpaid	106,764	95,329
Prepaid/Advanced	-	7
Total Non-Federal	106,764	95,336
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 1,963,181	$ 1,778,396

Note 12. 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 SNC, and net outlays, reported on a budgetary basis on the SBR. While budgetary and financial (proprietary) 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, excluding the repayment to the Treasury of debt principal.

Figure 36- Reconciliation of the Net Cost of Operations to Net Outlays

(thousands)

DISA GF 2024 Unaudited	Intragov.	Public	Total
Net Cost of Operations (SNC)	$ 2,928,722	$ 471,137	$ 3,399,859
Components of Net Cost That Are Not Part of Net Outlays:			
Property, plant, and equipment depreciation expense	-	(147,591)	(147,591)
Property, plant and equipment disposals and revaluations	-	(130,952)	(130,952)
Lessee Lease Amortization	-	(3)	(3)
Applied overhead/cost capitalization offset:			
Property, plant, and equipment	-	455,916	455,916
Increase/(Decrease) in Assets:			
Accounts receivable, net	(24,388)	(832)	(25,220)
Advances and prepayments	-	(7)	(7)
(Increase)/Decrease in Liabilities:			
Accounts payable, net	18,251	(3,048)	15,203
Federal employee salary, leave, and benefits payable	-	(4,730)	(4,730)
Veterans, pensions, and post-employment-related benefits	-	217	217
Advances from others and deferred revenue	-	1,029	1,029
Other liabilities	(619)	(1,860)	(2,479)
Financing Sources:			
Imputed cost	(91,952)	-	(91,952)
Total Components of Net Operating Cost Not Part of Net Outlays	(98,708)	168,139	69,431
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	5,923	5,923
Financing Sources:			
Transfers (in)/out without reimbursements	124,635	-	124,635
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	124,635	5,923	130,558
Total Net Outlays	$ 2,954,649	$ 645,199	$ 3,599,848
Budgetary Agency Outlays, Net (SBR)			$ 3,599,848
Unreconciled difference			$ -

Note 13. Reclassification of Financial Statement Line Items for Financial Report Compilation Process

The Statement of Changes in Net Position reports the change in net position for the period, which results from changes to cumulative results of operations. During FY 2024, 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. In accordance with OMB A-136 II.3.8, if DISA GF received funds from dedicated collections, a crosswalk for line items used to prepare the government-wide SNC would be disclosed in this note.

Note 14. Disclosure Entities and Related Parties

Pursuant to SFFAS 47 reporting disclosure requirements, related parties are considered related if: (1) one party to an established relationship, has the ability to exercise significant influence over the other party in making policy decisions and (2) the relationship is of such significance that it would be misleading to exclude information about it. After review of SFFAS 47, appendix B and the associated criteria, it was determined DISA does not have consolidated entities, disclosure entities nor related parties.

Defense Information Systems Agency
General Fund

Required Supplementary Information
Fiscal Year 2024, Ending Sept. 30, 2024

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 2024, DISA GF has DM&R to report of $38.4 million.

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

DM&R determination is based on development and annual review of an integrated project list of life-cycle replacement items and identification of needed maintenance. Analysis determines and identifies any replacement of life-cycle items in the year that the items are needed. A review is conducted annually to rank and prioritize maintenance and repairs (M&R) activities among other activities. The criteria for prioritizing M&R activities 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 2024, DISA has transferred out all GF real property assets. The DISA GF has DM&R related to capitalized general PP&E, non-capitalized or fully depreciated general PP&E. DISA does not have stewardship PP&E or PP&E for which management does not measure and/or report DM&R. The rationale for excluding any PP&E asset other than if not capitalized, or it is fully depreciated, is the item does not meet the applicable capitalization criteria, is not on the integrated project list, or there are preventative maintenance contracts in place to address maintenance needs in the current year.

There have been changes in identification of DM&R that has occurred since the last fiscal year. In FY 2024, DISA GF has further refined its identification of DM&R, and reporting deferred maintenance of $38.4 million for general PP&E. DISA GF will continue to review its process and enhance its identification of deferred maintenance reporting as needed.

Defense Information Systems Agency General Fund
as of Sept. 30, 2024 (Unaudited)
(thousands)

Figure 37- Combining Statement of Budgetary Resources

	O&M	PROC	RDT&E	MILCON	COMBINED
Budgetary Resources (discretionary and mandatory):					
Unobligated balance from PY budget authority, net	$ 440,931	$ 277,617	$ 169,927	$ 14,822	$ 903,297
Appropriations	3,185,933	487,797	224,708	-	3,898,438
Spending Authority from offsetting collections	284,888	565	36,423	-	321,876
Total Budgetary Resources	$ 3,911,752	$ 765,979	$ 431,058	$ 14,822	$ 5,123,611
Status of Budgetary Resources:					
New obligations and upward adjustments	$ 3,617,490	$ 532,304	$ 342,141	$ 1,608	$ 4,493,543
Unobligated balance, end of year:					
Apportioned, unexpired accounts	67,150	151,156	55,568	5,387	279,261
Unapportioned, unexpired accounts	-	-	-	-	-
Unexpired unobligated balance, end of year	67,150	151,156	55,568	5,387	279,261
Expired unobligated balance, end of year	227,112	82,519	33,349	7,827	350,807
Unobligated balance, end of year (total)	294,262	233,675	88,917	13,214	630,068
Total Budgetary Resources	$ 3,911,752	$ 765,979	$ 431,058	$ 14,822	$ 5,123,611
Outlays, net:					
Outlays, net (total) discretionary and mandatory	2,821,351	509,195	262,518	6,784	3,599,848
Agency Outlays, net (discretionary and mandatory)	$ 2,821,351	$ 509,195	$ 262,518	$ 6,784	$ 3,599,848

Defense Information Systems Agency
General Fund
Other Information
Fiscal Year 2024, Ending Sept. 30, 2024

Summary of Financial Statement Audit and Management Assurances
Audit Opinion: Disclaimer of Opinion
Restatement: No

Figure 38-Summary of Financial Statement Audit

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Fund Balance with Treasury	3	0	3	0	0
Accounts Payable/Expense	4	0	0	0	4
Accounts Receivable/Revenue	2	1	0	0	3
Unmatched Transactions	1	0	0	0	1
Financial Reporting	1	0	1	0	0
Undelivered Orders	2	0	0	0	2
Unfilled Customer Orders	1	0	0	0	1
PPE	2	0	1	0	1
Total Material Weaknesses	16	1	5	0	12

Figure 39-Effectiveness of Internal Control over Financial Reporting (FMFIA§ 2)

Statement of Assurance: Disclaimer of Opinion

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Fund Balance with Treasury	3	0	3	0	0	0
Accounts Payable/Expense	4	0	0	0	0	4
Accounts Receivable/Revenue	2	1	0	0	0	3
Internal Controls	0	0	0	0	0	0
Unmatched Transactions	1	0	0	0	0	1
Financial Reporting	1	0	1	0	0	0
Undelivered Orders	2	0	0	0	0	2
Unfilled Customer Orders	1	0	0	0	0	1
PPE	2	0	1	0	0	1
Total Material Weaknesses	16	1	5	0	0	12

Figure 40-Effectiveness of Internal Control over Operations (FMFIA§ 2)

Statement of Assurance: Disclaimer of Opinion

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Figure 41- Conformance with Federal Financial Management System Requirements (FMFIA§ 4)

Statement of Assurance: Disclaimer of Opinion

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT-Related	0	0	0	0	0	0
Total non-conformance	0	0	0	0	0	0

Figure 42-Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

Compliance Objective	**Agency**	**Auditor**
Federal Financial Management System Requirements	No lack of compliance noted except as noted in IT related material weaknesses above	Lack of substantial compliance noted
Applicable Federal Accounting Standards	No lack of compliance noted except as noted in financial reporting related material weaknesses above	Auditor was Unable to Conclude
USSGL at Transaction Level	No lack of compliance noted	Auditor was Unable to Conclude

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

24 October 2024

SUBJECT: Top Management and Performance Challenges Facing the Defense Information Systems Agency (DISA) in Fiscal Year 2025

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 and performance challenges facing DISA and assessing the Agency's progress in addressing those challenges. DISA 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 2025.

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.

The DISA OIG identified five challenges this year. The challenges are not listed in a specific order and all are considered to be significant to DISA's work. DISA's Top Management and Performance Challenges for Fiscal Year 2025 include:

- Meeting Data Management Challenges
- Managing Human Capital
- Mission Partner Payments
- Property Management and Accountability
- Artificial Intelligence

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Stephen M. Ryan
Inspector General

Challenge 1
Meeting Data Management Challenges

Within the Department of Defense (DoD), data management is the execution of directives to acquire, control, protect, and enhance the value of data assets. As a combat support agency (CSA), DISA implements and sustains global transport, voice, video, and data for mission partners while maintaining various operating systems that produce large and complex datasets. The federal government, DoD, and DISA, are under constant data-driven cyber-attacks. For example, the Federal Bureau of Investigations (FBI), National Security Agency (NSA), and the Cybersecurity and Infrastructure Security Agency (CISA) announced that hostile state-sponsored hackers targeted and breached U.S. defense and industry critical infrastructure in the past.

DISA is responsible for helping the DoD modernize the infrastructure and identify, protect, detect, respond, and recover from data threats within DISA's area of operations. The DISA Office of the Chief Data Officer (OCDO) was formally established in September 2021. In 2022, the Chief Data Officer (CDO) published the DISA Data Strategy Implementation Plan v1.0 (IPlan v1.0), describing a modern approach to information architecture and data management and outlining workstreams necessary to organize activities, define activities, and identify next steps for the DISA organization, covering the years for FY2022-FY2024. The DISA IPlan v1.0 aligned with the 2020 DoD Data Strategy, DISA Strategic Plan FY2022-2024, and expanded upon DISA's efforts to meet DoD data management principles, capabilities, and goals by leveraging data as a center of gravity. DISA also created the DISA Data Analytics Center of Excellence to bridge business policies, cyber, and information technology.

To tackle current and future challenges, the DoD outlined specific data management goals in the 2023 Data, Analytics, and Artificial Intelligence Adaptation Strategy. Per the Strategy, DoD aims to protect data and evolve data into actionable information for decision makers. The DoD Strategy describes the DoD vision, guiding principles, essential capabilities, and goals for data management throughout the DoD. To meet the current DoD strategy and DISA's evolving data and AI needs, the CDO will publish a new DISA Data Plan in Q1 FY2025. When published, this new DISA Data Plan, and subsequent IPlan v2.0, will align with the DoD 2023 Data, Analytics, and Artificial Intelligence Adoption Strategy and the DISA Next Strategy.

In 2024, the DISA OIG published an evaluation of DISA's data management maturity. The OIG found DISA's data management was at the beginning of a multi-year process to manage institutional change and adopt a data-centric culture. The OIG had five recommendations to help DISA reach higher levels of maturity. Since the report was published, DISA has updated the DISA Data Catalog Business glossary, created a Data Readiness Assessment (DRA) Scorecard, and implemented and integrated the DRA Scorecard into Chief Engineering Panel (CEP) processes.

Challenge 2
Managing Human Capital

Recruiting individuals with the right talent in a timely manner is critical and continues to be a challenge. DISA competes for talent with the private sector, where additional benefits and flexibilities can be used to recruit highly qualified workers. Whether individuals are recent college graduates, high-performing industry professionals, or military veterans with years of experience in the field, DISA's goal is to make the Agency a place sought out by high-caliber talent.

To address this challenge, DISA continues to strengthen the work culture, invest in key initiatives to attract and retain a talent pool skilled in critical thinking and diverse in ideas, backgrounds, and technical expertise. DISA is also forecasting needed skills through succession planning, improving how DISA markets career opportunities within the agency, and deepening external partnerships with educational institutions and third-party personnel services. DISA's telework and remote work policies also allow leadership to broaden the hiring pool of candidates in various geographical regions to attract and retain high quality talent.

Workforce 2025 is DISA's recent initiative designed to address longstanding cyber workforce challenges, including attracting, training, and promoting a workforce that is equipped with the knowledge and decision-making abilities to "creatively solve national security challenges in a complex global environment." DISA released *Workforce 2025 Implementation Plan* in September 2023, and the Plan is a living document that may change due to resources and/or strategic and workforce priorities.

The *Workforce 2025* strategy is designed to enhance the skills and talents of current employees while ensuring DISA onboards new talent and invests in the professional development of both throughout their careers. *Workforce 2025* is the Agency's plan to shape an empowered workforce, inspire trust through high trust behaviors, develop leaders, encourage bold decision making, enable collaboration, embrace technological advancement, and optimize the hybrid workforce and hybrid workplace. Workforce 2025 will establish a culture enabling the Agency to rapidly adapt to inevitable technological advances and mission portfolio adjustments ensuring DISA delivers relevant, cutting-edge capabilities so our Warfighters gain and maintain an operational and competitive edge.

In 2024, the DISA OIG published an evaluation of DISA's hiring process. Overall, the OIG found inefficiencies across the hiring process and staff could not effectively track hiring actions because of insufficient hiring guidance, training, platforms, metrics, and accountability. To address these challenges, the OIG recommended DISA improve training and create a detailed guidebook that includes authorities, responsibilities, and process timelines. The OIG also recommended DISA develop a platform to track hiring from the time a position is vacant to the first day of employment.

Challenge 3
Mission Partner Payments

Accurate, auditable reporting of financial and budgeting information allows DISA to obtain optimal resources to ensure mission success. DISA operates with two funding types: General Fund (GF) and Working Capital Fund (WCF). DISA has a total budget of $11.9 billion and receives funding through both congressional appropriations of $3.4 billion and WCF of $8.5 billion.

In FY 2023, DISA's GF financial statements received a disclaimer of opinion because DISA was unable to provide sufficient evidence for the independent auditor to produce an opinion and the independent auditors found material weaknesses. DISA's WCF financial statements received an unmodified opinion.

DISA, like other service providers in the Department of Defense, experiences delinquent accounts receivable as part of doing business with various mission partners. DISA continues to have challenges obtaining Mission Partner (Military Services and Defense/Non-Defense Agencies) funding in a timely manner for reimbursable costs incurred.

In FY 2023, the DISA Office of the Inspector General (OIG) conducted an audit of DISA's Reimbursable Services Collections to determine whether DISA collects accounts receivables for reimbursable services in accordance with DoD and DISA guidance. DISA OIG made six recommendations and two of six recommendations have been implemented, resulting in decreased uncollected aged accounts receivables. Incomplete and limited automated capabilities to accomplish and carryout financial activities for the collection process hinders DISA's ability to receive timely reimbursement for services provided.

DISA is planning to standardize customer engagement and delinquent customer notices across the GF and WCF to build a more consistent and streamlined process preventing aged accounts receivable bills from occurring. The updated policy, once signed, will identify and enforce a standard process across DISA.

DISA must remain diligent in their efforts to develop and implement corrective action plans for identified findings and recommendations to improve the production of reliable financial information and ensure a competitive advantage for the warfighter on the battlefield.

Challenge 4
Property Management and Accountability

Property management and accountability is a top management challenge for DISA. For FY 2023, Property, Plant, and Equipment reported on DISA's balance sheets included General Fund (GF) $325 million and Working Capital Fund (WCF) $1 billion. In FY 2023, DISA's WCF Annual Financial Report included a repeat significant deficiency pertaining to a lack of accountability over Property, Plant, and Equipment.

Property management includes the functions of determining property requirements, receipt, storage, distribution, utilization, and disposal of property. Property management and accountability is a challenge across DoD. The DISA OIG has conducted several property audits and reported concerns relating to property management and accountability at DISA; specifically, concerns included: decentralized program property management functions, overarching policies and procedures, warehouse property management, proper oversight, property obsolescence, backlogs of property awaiting final disposal, Government Furnished Property in the possession of contractors, accountability of mobile device, etc. These audit findings illustrate the challenges facing DISA when managing and accounting for property. The DISA OIG has made several recommendations to help improve the internal controls for property accountability.

DISA continues to work to improve oversight of accountable property. DISA's J4 is creating overarching guidance for property management and accountability to improve internal controls.

Challenge 5
Artificial Intelligence

Artificial intelligence (AI) refers to the ability of machines to perform tasks that normally require human intelligence. For example, AI includes recognizing patterns, learning from experience, drawing conclusions, making predictions, or acting. Examples of AI enabled technology include chatbots that facilitate writing, tools for intelligence analysis, and autonomous weapon systems. Strategic competitors, such as China and Russia, are also making significant investments in AI.

AI will transform warfare, and failure to adopt AI technology could hinder national security. According to the DISA Director, generative AI is "probably one of the most disruptive technologies and initiatives in a very long, long time. Those who harness that and can understand how to best leverage it, but also how to best protect against it, are going to be the ones that have the high ground."

In response to this challenge, the 2018 DoD AI Strategy directs the DoD to accelerate the adoption of AI and the creation of a force that can protect the security of our nation. In 2022, DoD also published a Responsible AI (RAI) Strategy and Implementation pathway that illuminates the path forward by defining and communicating a framework for harnessing AI.

DISA is also looking for ways to repurpose cutting-edge technology like AI for cyber analytics, cyber protection, and operations to protect the Defense Department's global network. For example, DISA held an AI Summit for participants to learn about various AI initiatives within DISA and around the DoD. Participants had the opportunity to meet leaders that specialize in AI and observed demonstrations by the Joint Artificial Intelligence Center, DISA, and Industry Leaders. DISA also issued Initial Guidance on the Responsible Use of Publicly Available Generative Artificial Intelligence Tools.

While DISA is moving forward in the pursuit of integrating the use of AI into DISA's mission to protect the Defense Department's global network, there is an increased challenge of ensuring that government-related materials, both Classified and Controlled Unclassified Information (such as Personal Identifiable Information (PII)) is protected from being uploaded into publicly available Generative AI tools. Even though the use of available AI tools for appropriate cases will be encouraged, DoD personnel must do so safely and responsibly and adhere to the responsible acquisition, deployment, and use of AI through established policies, including DoD's AI Ethical Principles.

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 performance improvement, 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 to prepare 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, DFAS, as DISA's accounting service provider, performs overpayment recapture functions on behalf of DISA. DFAS includes DISA transactions in its sampling populations for improper payment testing of civilian payroll and travel. There have been no issues arising to merit an anticipated negative impact regarding payment integrity and improper payment recovery in FY 2024.

DoD Office of Inspector General (OIG) Audit Report Transmittal Letter

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

November 8, 2024

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 2024 and FY 2023
(Project No. D2024-D000FL-0066.000, Report No. DODIG-2025-027)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney) 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, 2024, and 2023. The contract required Kearney 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 General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney 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," Volume 1, June 2024; Volume 2, June 2024; and Volume 3, July 2024. Kearney's Independent Auditor's Reports are attached.

Kearney's audit resulted in a disclaimer of opinion. Kearney could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DISA General Fund Financial Statements. As a result, Kearney could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney did not express an opinion on the DISA General Fund FY 2024 and FY 2023 Financial Statements and related notes.

Kearney's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses four material weaknesses related to the DISA General

Fund's internal controls over financial reporting.* Specifically, Kearney's report stated that the DISA General Fund did not design or implement internal controls to:

- analyze, record, and support Accounts Receivable and revenue transactions in a timely manner;
- validate, record, and support Accounts Payable accrual estimates and expense transactions;
- validate, record, and support budgetary resource related transactions; or
- identify and record property, plant, and equipment accurately and in a timely manner.

Kearney's additional report, "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements," discusses three instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Kearney's report describes instances in which DISA did not comply with the Federal Financial Management Improvement Act of 1996, the Federal Managers' Financial Integrity Act of 1982, or section 1502(a), title 31, United Sates Code.

In connection with the contract, we reviewed Kearney's reports and related documentation and discussed them with Kearney'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 2024 and FY 2023 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DISA General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney did not comply, in all material respects, with GAGAS. Kearney is responsible for the attached November 8, 2024 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. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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

Attachments:
As stated

Independent Auditor's Report

KEARNEY& COMPANY

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Defense Information Systems Agency (DISA) General Fund (GF), which comprise the Balance Sheets as of September 30, 2024 and 2023, 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.

We do not express an opinion on the accompanying financial statements of DISA GF. Because of the significance of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

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, completeness, and accuracy of Accounts Receivable, Accounts Payable, Earned Revenue, Gross Costs, and the related budgetary accounts. DISA GF was unable to provide sufficient supporting documentation in a timely manner to support these line items in fiscal year (FY) 2024.

DISA GF was unable to support its revenue and expense activity, as well as related budgetary activity, during FY 2024. The underlying key supporting documentation provided during the audit lacked critical information, such as quantity, price, amount, and delivery and receipt timeframes. Intra-governmental and intra-Department of Defense activity was unsupported for a majority of the samples selected for testing. This also impacts DISA GF's ability to ensure that transactions are recorded in the correct period and to develop and validate accrual estimates.

The effects of the conditions described in the preceding paragraphs cannot be fully quantified, nor was it practical, given the available information, to extend audit procedures to sufficiently determine the extent of the misstatements to the financial statements. The effects of the conditions in the preceding paragraphs and overall challenges in obtaining timely and sufficient audit evidence also made it impractical to execute all planned audit procedures. As a result of these departures, we were unable to determine whether any adjustments might have been found necessary with respect to recorded or unrecorded amounts within the elements of the financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of required supplementary information (RSI) in accordance with U.S. generally accepted accounting principles; 3) the preparation and presentation of other information included in DISA GF's Agency Financial Report, as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DISA GF's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of DISA GF's financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS); 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. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are required to be independent of DISA GF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Deferred Maintenance and Repairs, and Combining Statement of Budgetary Resources be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board, 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 RSI in accordance with GAAS 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02, we have also issued reports, dated November 8, 2024, on our consideration of DISA GF's internal control over financial reporting and on our tests of DISA GF's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2024. 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. 24-02 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 8, 2024

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Director, Defense Information Systems Agency, and 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. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements and the related notes to the financial statements of the Defense Information Systems Agency (DISA) General Fund (GF) as of and for the year ended September 30, 2024, which collectively comprise DISA GF's financial statements, and we have issued our report thereon dated November 8, 2024. 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.

Report on Internal Control over Financial Reporting

In planning and performing our engagement to audit the financial statements, we considered DISA GF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DISA GF's internal control. Accordingly, we do not express an opinion on the effectiveness of DISA GF's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, 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 identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 in DISA GF's internal control described in the accompanying **Schedule of Findings** as Items I, II, III, and IV 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 the deficiencies in DISA GF's internal control described in the accompanying **Schedule of Findings** as Items I and II to be significant deficiencies.

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

The Defense Information Systems Agency General Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DISA GF's response to the findings identified in our engagement and described in the accompanying Agency Financial Report. DISA GF concurred with the findings identified in our engagement. DISA GF's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DISA 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. 24-02 in considering DISA GF's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2024

Schedule of Findings

Material Weaknesses

Throughout the course of our audit work of the Defense Information Systems Agency (DISA) General Fund (GF), 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. Accounts Receivable/Revenue	A. Revenue Samples Not Supported B. Lack of Revenue Recognition
II. Accounts Payable/Expense	A. Expense Samples Not Supported B. Lack of Accounts Payable Validation
III. Budgetary Resources	A. Invalid Unfilled Customer Orders Without Advance Transactions B. Invalid Undelivered Order Transactions C. Inaccurate Upward and Downward Adjustments of Prior-Year Obligations D. Untimely Undelivered Order Transactions
IV. Property, Plant, and Equipment	A. Property, Plant, and Equipment Completeness Issue

I. Accounts Receivable/Revenue (*Modified Repeat Condition*)

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

A. Revenue Samples Not Supported
B. Lack of Revenue Recognition

A. Revenue Samples Not Supported

Background: DISA GF participates in various types of activities which generate revenue that are reported on its annual Statement of Net Cost (SNC). This revenue is generated primarily to provide information system (IS) services to various trading partners throughout the fiscal year (FY). Examples of revenue include labor hours for services performed and rendered (such as Joint Interoperability Test Command [JITC] services), cost distribution and sharing services among Department of Defense (DoD) entities, and passthrough revenue where DISA GF bills its customer based off an expense incurred. DISA GF revenue recorded for the period ended June 30, 2024 totaled $179.8 million. DISA GF management is responsible for ensuring revenue transactions are recorded in the correct period for the correct amount.

As part of the procurement process, DISA GF prepares billing documentation for services performed for its customers. This invoice type varies, as it is dependent on whether the transaction is between another Government agency or a commercial customer. Another type of document, which is typically included in addition to the invoice provided by DISA GF, relates to Standard Form (SF)-1080, *Vouchers for Transfers Between Appropriations and/or Funds*. This standard DoD form provides details relating to the amount of the applicable transfer and appropriation, as well as citing the agency's (e.g., DISA GF) Line of Accounting (LOA). A majority of DISA GF's transactions that utilize the SF-1080 forms are processed through the Defense Cash Accountability System (DCAS) and Intragovernmental Payment and Collection (IPAC) system, as well as the 1080-Print billing process. Each of these sources of intragovernmental transactions and billing on behalf of the customers is processed by DISA GF's service organization and collected on behalf of the performing agency.

DISA GF must recognize revenue in the period in which services are provided per Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Condition: A review of 202 revenue transactions revealed exceptions for 69 samples. Exception categories included 44 samples ($4.2 million) recorded in FY 2024 for goods and services provided in a prior FY, 12 abnormal transactions ($1.2 million) that related to corrections from prior periods, and 13 cost distribution samples ($430.6 thousand) that did not agree to adequate supporting documentation.

For an additional eight samples totaling approximately $2 million, the supporting documentation provided was inconclusive and treated as exceptions.

Cause: DISA GF management does not have processes or controls in place to ensure revenue is recorded in the period in which it is earned. DISA GF does not currently record an accrual to account for revenue that is earned, but not yet billed. Many of DISA GF's revenue transactions are driven by its expense recognition, which is subject to an accrual. However, when these expense accruals are recorded, DISA GF does not always record an entry to reflect the corresponding revenue accrual. DISA GF has not pursued quantifying and posting an Accounts Receivable (AR) accrual due to the impact to trading partner reconciliations. Additionally, a significant number of transactions (obligations, expenses) were not recorded in DISA GF's financial accounting system accurately and timely. When expenses that drive its revenue are not recorded timely, DISA GF cannot effectively perform analysis to ensure revenue is recorded in the correct period.

Effect: The exceptions noted during sample-based testing amounted to DISA GF's earned revenue being likely misstated by $5.5 million. However, due to the nature of this control deficiency, along with the unsupported activity, additional misstatements may also exist in the balance. Without effective controls relating to timely revenue recognition, DISA GF is unable to ensure that revenue will be billed and collected accurately, completely, and in a timely manner. DISA GF management cannot assert to the completeness and accuracy of the amounts recorded on the SNC Earned Revenue line item, as well as the AR line item on the Balance Sheet. DISA GF's current revenue recognition process does not ensure revenue is recorded in the period it is earned.

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

1. Design and implement procedures and controls to confirm that revenue accruals are recorded to match corresponding expense accruals, when appropriate. This should include posting a journal voucher (JV) entry to ensure revenue is recorded in the proper period.
2. Review and identify specific revenue activity that is at risk of being recorded in the subsequent period and include it in the AR/Revenue accrual. This includes JITC labor, cost distribution/sharing activity, and passthrough activity (i.e., recorded external expense drives revenue).

B. Lack of Revenue Recognition

Background: DISA GF provides goods and services to other Federal and commercial entities that generate revenue reported on the SNC. These revenues are generated primarily to provide IS services to various trading partners throughout the FY. Much of DISA GF'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.

In addition, DISA GF also provides "passthrough" services, where DISA GF procures goods and services through DISA Working Capital Fund (WCF) or other commercial entities. DISA GF records Accounts Payable (AP) to account for goods and services performed or procured, but not yet invoiced. Due to the nature of DISA GF's business processes, there is reimbursable and passthrough activity within its estimated AP population. This contracting and passthrough activity has a corresponding revenue event that should be recorded at the same time. A JV adjustment should be recorded to ensure that revenue is recorded in the correct period.

DISA GF must recognize revenue in the period in which services are provided per SFFAS No. 7.

Condition: DISA GF does not currently post a quarterly revenue accrual to properly account for revenue earned, but not yet billed. DISA GF's analysis indicated the unposted adjustment for March 31, 2024 totaled $17 million. Testing in FY 2024 also indicated that a significant amount of revenue is recorded in the subsequent period as noted in Notice of Finding and

Recommendation (NFR) 2024-FIN-GF-18, *GF Revenue Testing Results*, which should be accounted for through an accrual process.

Cause: DISA GF has chosen not to post an adjusting entry to AR/Revenue to account for its reimbursable activity within the estimated AP population due to the timing and availability of the data, in addition to the impact on trading partner reconciliations. Further, DISA GF has not completed its analysis to quantify the impact of subsequent period billings.

Effect: DISA GF's AR and Revenue line items are misstated by at least $17 million. Further, DISA GF has not completed its analysis to determine the total impact of subsequent period billings unbilled revenue. The revenue reported on DISA GF's SNC may not be complete or accurate for the period ended September 30, 2024. DISA GF's Revenue and related Budgetary Accounts could potentially be materially misstated due to prior-year and current-year unrecorded revenue.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Continue to design and implement processes and controls to ensure all revenue from reimbursable activities is recorded and reconciles to the associated expenditure.
2. Review the lag between when revenue is earned and when it is recorded in the GF financial accounting system and determine if an adjustment is necessary.
3. Post an estimated AR accrual adjustment to properly account for revenue earned in the current period.

II. Accounts Payable/Expense (*Modified Repeat Condition*)

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

A. Expense Samples Not Supported
B. Lack of Accounts Payable Validation

A. Expense Samples Not Supported

Background: DISA GF 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 IS services to various trading partners, as well as the standard, operational expenses incurred throughout the FY. 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 GF calculates this estimate by reviewing its history of completed contracts and the expenses recorded compared to contractual ceiling values. DISA GF expenses recorded for the period ended June 30, 2024 totaled $2.7 billion. DISA GF 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 GF obtains documentation for services received from the vendor. This invoice type varies depending on whether the transaction is between another Government agency or a commercial vendor. When the transaction is with another Government agency, DISA GF typically obtains an SF-1080, *Vouchers for Transfers Between Appropriations and/or Funds*. This standard DoD form provides details relating to the amount of the applicable transfer and appropriation, as well as citing the agency's (e.g., DISA GF) LOA. However, this document generally does not include a detailed description of what and when goods/services were provided to DISA GF. Additionally, the SF-1080 is primarily used by DISA GF's service organization when processing and documenting the transactions. A majority of DISA GF's transactions that utilize the SF-1080 forms are processed through the DCAS and IPAC system, as well as the 1080-Print billing process. DISA GF's service organization processes and collects on behalf of the performing agency for each of these sources of intragovernmental transactions. DISA GF's business process does not require receipt and acceptance over intragovernmental transactions prior to payment of invoices.

DISA GF must recognize expenses in the period in which they are incurred per SFFAS No. 1, *Accounting for Selected Assets and Liabilities*. DISA GF is also responsible for ensuring it is using relevant data from reliable sources to support its internal control system per the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*. DISA GF should exchange performance-related data with its trading partners surrounding the delivery and acceptance of goods, along with receipt and consumption of services per the Treasury Financial Manual (TFM).

Condition: A sample of 565 DISA GF expense transactions as of June 30, 2024, totaling $776.8 million, was selected for review. Many samples did not include evidence of receipt and acceptance. Additional samples had an insufficient description of the goods and services being performed and/or lack of period of service or delivery date on the invoice documentation provided. Other samples included corrections to invoices from prior periods, as well as travel-related activity recorded incorrectly in the subsequent period. Additionally, in some cases, the supporting documentation provided was insufficient to draw conclusions on the validity of the expense transaction.

Due to the FY 2024 disclaimer of audit opinion, DISA GF did not pursue follow-up questions to resolve the exceptions and provide additional supporting documentation before the audit report was finalized. Further follow-up will be conducted under the Audit Continuation Methodology subsequent to report release. ***Exhibit 2*** summarizes the exception results:*

Exhibit 2: Expense Exception Results

Exception Type	Amount	Count
Lacked evidence of receipt and acceptance	$323 million	216
Insufficient description of goods and services/service dates	$225.3 million	149
Prior-period activity/corrections	$1.8 million	9
Travel-related expenses incurred in a prior period	$38.3 thousand	7
Insufficient audit evidence provided to draw conclusions	$19.5 million	27

*Some exceptions may fall into multiple categories

Cause: DISA GF's service organization does not always maintain appropriate evidence to support the payments made on DISA GF's behalf. DISA GF has not designed or implemented controls to ensure that the goods and services the entity is being invoiced are actually received. DISA GF management does not have a process in place to retain evidence of receipt and acceptance for intragovernmental expenditures. We also found that DISA J8 (Office of the Chief Financial Officer/Comptroller) did not always have access to background information relating to intragovernmental program activities or established communication lines with program officials within the organizations who are in charge of those programs. Additionally, DISA GF has not established controls and methodologies to ensure expenses are recognized in the appropriate period.

Effect: Without sufficient and appropriate audit evidence for underlying expenses, DISA GF is unable to sufficiently support the amounts reported on the entity's Gross Cost line (SNC) and AP (Balance Sheet). This lack of documentation also impacts DISA GF's ability to sufficiently complete accrual estimates, with supported assumptions, to ensure expenses are posted in the proper period. When transactions are not posted timely in Defense Agencies Initiative (DAI) and underlying supporting documentation is insufficient, DISA GF's accrual methodology cannot effectively ensure that the resulting estimated expenses are accounted for in the correct period.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Coordinate with its service organization to ensure that sufficient and appropriate evidence is collected and maintained for each expense transaction prior to processing the payment so DISA GF has readily available documentation to support expense transactions (e.g., applicable invoice, matching receiving report, and/or applicable contract).
2. Coordinate with its service organization to design and implement a process to perform and document receipt and acceptance of intragovernmental expenditure activity prior to or after the payment is processed.
3. Design and implement procedures and controls to confirm the expenses are appropriately recorded in the proper period or accounted for through DISA GF's accrual process, as well as contain the necessary documentation and support for each transaction type.
4. Require trading partners to provide sufficient and appropriate audit evidence for each individual invoice transaction as part of the initial Military Interdepartmental Purchase Request (MIPR) or contractual agreement.

5. Establish a line of communication between the accounting office and program offices to ensure a strong understanding of intragovernmental programs and procedures to properly support and account for intragovernmental expenses within DISA GF's financial statements. This may result in identifying and implementing alternative methods of accruing estimates for intragovernmental expense activity that are more likely to withstand audit scrutiny.

B. Lack of Accounts Payable 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. 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.

DISA GF's AP accrual is intended to recognize amounts owed by DISA GF for goods and services received, but not yet invoiced. DISA GF records estimated AP/Expenses based on a straight-line estimation methodology of 91% of the total obligated contract value over the period of performance specified in the signed contractual agreement. DISA GF calculated this estimate by reviewing its history of completed contracts and the payments recorded compared to contractual ceiling values. The majority of AP recorded on DISA GF's Balance Sheet is recorded using this methodology. As of September 30, 2023, invoiced AP totaled $4.2 million, while estimated AP totaled $358.7 million. Nearly 80% of DISA GF's estimated AP is with the WCF, which is validated through a reconciliation. The DISA GF's estimated non-WCF accrual subject to a separate validation as of September 30, 2023 totaled $70.7 million, which is mostly intragovernmental activity.

DISA GF must recognize expenses in the period in which they are incurred per SFFAS No. 1. DISA GF is also responsible for ensuring it is using relevant data from reliable sources to support its internal control system per GAO's *Standards for Internal Control in the Federal Government*.

Condition: DISA GF has not successfully completed a process or control to validate the reasonableness of its non-WCF AP accrual estimate. During FY 2024, DISA GF performed a non-statistical review of subsequent period disbursements, focusing on its three largest intragovernmental trading partners. This covered $54.5 million out of $70.7 million of its estimated AP accrual. The following conditions were noted during the validation:

- A subsequent disbursement (in FY 2024) was identified, totaling $8.1 million, that was not properly accrued for because the obligation was not entered in the proper FY (FY 2023)

- Further, DISA GF's review of subsequent disbursements stopped once DISA GF reached the AP accrual balance recorded for a specific trading partner. This review did not consider the possibility that additional FY 2024 payments were related to expenses incurred in FY 2023, which indicates the AP accrual was understated
- Testing in FY 2024 also noted that the underlying assumptions of contractual start and end dates were not always recorded accurately within DISA GF's financial system.

Cause: DISA GF's preliminary review of its estimated AP accrual, which included a review of the three largest trading partners (after DISA-WCF), identified several factors that continue to impact DISA GF's ability to complete an AP accrual validation. For example, supporting documentation behind DISA GF's intra-governmental expenses does not consistently contain sufficient detail to determine when goods or services were actually incurred. Further, DISA GF's analysis does not consider whether the AP accrual methodology's underlying assumptions are correct based on actual data and events. For instance, expenses may not always be incurred equally over the life of the contract, as the estimation technique assumes. Additionally, obligations and amendments to increase funding are not always posted timely, which causes activity to be subjected to the accrual untimely. DISA GF indicated that, in some cases, when amendments to contracts are entered into DAI, the contractual start date is updated, which incorrectly changes the estimated AP amount.

Effect: Without sufficient underlying supporting documentation (which includes timely and accurate obligation posting, detailed invoices, and accurate contractual period of performance) and 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 GF's financial statements may be misstated. Inaccurate contractual dates within DAI and failing to validate the estimated accrual methodology limits DISA GF's ability to obtain relevant information to adjust and post an accurate AP accrual as of September 30, 2024.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Reassess the reasonableness of the AP estimation technique and its underlying assumptions based on the results and conclusion of the validation effort. This could include analyzing and organizing the data and activity in similar programmatic categories and posting more than one accrual.
2. Perform a comprehensive review of subsequent disbursements to validate the AP accrual. DISA GF should compare actual vendor invoice supporting documentation, such as when the good/service was incurred, and amounts to the estimated AP balance to assess the reasonableness of the estimate.
3. Perform a review of obligation data to ensure the contractual start and end dates are entered correctly into DISA GF's general ledger (GL) system.
4. Coordinate with its service organization to ensure expense transaction supporting documentation contains sufficient evidence of when goods/services were provided, as prescribed in the Financial Management Regulation.
5. Post obligation data (including amendments) timely and ensure contractual dates are correct within the GL accounting system.

III. Budgetary Resources (*Modified Repeat Condition*)

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

A. Invalid Unfilled Customer Orders Without Advance Transactions
B. Invalid Undelivered Order Transactions
C. Inaccurate Upward and Downward Adjustments of Prior-Year Obligations
D. Untimely Undelivered Order Transactions

A. Invalid Unfilled Customer Orders Without Advance Transactions

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

DISA GF reported approximately $206.1 million in UCOs Without Advance on its March 31, 2024 trial balance. The account balance is supported by a subsidiary ledger that details information such as the fund, document number, order amount, and transaction date, among other unique identifying details for each UCO balance.

In FY 2022, DISA GF implemented a control to record an adjustment for dormant UCOs, in which DISA GF would post an on-the-top JV to reduce the UCO balance by the amount identified. Dormant UCOs are identified by UCO balances as uncollected orders aged greater than 365 days and the order date is greater than 18 months.

DISA GF must ensure that contracts are physically completed when the Government has inspected and accepted all supplies and/or services per the Federal Acquisition Regulation. DISA GF should ensure that UCOs only include amounts that represent goods and/or services to be furnished to its customers per TFM Bulletin 2024-04, *Section II*.

Condition: During beginning balance testing, a statistical sample of 86 UCOs established prior to FY 2023 not included in DISA GF's Dormant Adjustment were selected for validity review. As a result of testing, 39 out of 86 UCOs were inappropriately classified as of September 30, 2023 or were unsupported. The following exceptions were identified:

- Sixteen UCOs totaling $1.9 million confirmed dormant as of September 30, 2023
- Twelve UCOs totaling $4.3 million where the validity could not be confirmed due to inadequate invoice support

- Eleven UCOs totaling $1.2 million confirmed dormant as of September 30, 2023. However, DISA GF later had FY 2024 invoice activity indicating that the UCO was valid in FY 2023.

Cause: DISA GF's dormant control over UCOs does not provide an accurate, complete, or appropriate review and/or adjustment for the open UCO balances. DISA GF used a separate report to perform its dormant review, rather than the actual subsidiary records from its GL system. In some cases, the data in this report differed from the GL records, resulting in inaccurate determinations as DISA GF performed its dormant review. Additionally, DISA GF's review included an assumption that a credit or a partial return of excess funds (ROEF) on a UCO record indicated that it was valid; however, this activity does not always confirm that DISA GF intended to fulfill the UCO.

Additionally, in some cases, UCOs that met DISA GF's criteria as invalid were ultimately valid due to untimely billings (over 18 months) from DISA GF to its trading partners. DISA GF's current dormant UCO review process does not have an effective lookback analysis to estimate and account for these scenarios.

For the unsupported UCOs, validity could not be determined on orders that rely on cost distribution and JITC/labor hour reports to demonstrate ongoing revenue generation. As these transactions were identified as exceptions for untimeliness in NFR 2023-FIN-GF-23, *GF Revenue Testing Results*, they cannot be relied upon to determine the validity of the UCOs.

Due to these limitations, the dormant UCO control cannot be effective until elements of the control are modified and the impact of misstatements is reduced to insignificant amounts.

Effect: The exceptions noted during sample-based testing amounted to DISA GF's Statement of Budgetary Resources (SBR) Line 1071, *Unobligated balance from prior year budget authority, net (discretionary and mandatory)*, being misstated by at least $3.1 million. However, due to the nature of this control deficiency, along with the unsupported activity, additional misstatements may exist in the balance. Without effective controls relating to DISA GF's dormant control and timely revenue recognition, DISA GF is unable to determine the validity of the UCO population.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Implement policies to ensure that funds holders are adequately assessing the validity of the open UCO balances and liquidate invalid UCOs immediately upon determining dormancy.
2. Implement policies, or update existing policies, which require the Procurement Services Directorate (PSD) to process contract actions timely once all goods and services have been provided to the customer.
3. Employ the same Universe of Transactions for the UCO adjustment that is used for financial reporting.
4. Remove the use of credit invoices and partial deobligations to support validity of UCOs.

5. Identify and review specific revenue activity that is at risk of being recorded in the incorrect period (particularly JITC labor and cost distribution/sharing activity) and maintain adequate documentation that ties to the matching UCOs.

B. Invalid Undelivered Order Transactions

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

DISA GF reported more than $1.9 billion in UDOs on its June 30, 2024 trial balance. The account balance is supported by a subsidiary ledger that details information such as the document number, obligated amount, undelivered amount, and transaction date, among other unique identifying details for each UDO balance.

In FY 2022, DISA GF implemented a control to record an adjustment for dormant UDOs, in which DISA GF would post an on-the-top JV to reduce the obligation balance by the amount identified. Dormant UDOs are identified by UDO balances as uncollected orders aged greater than 365 days and the obligation date is greater than 18 months.

DISA GF must ensure that obligations will result in outlays immediately or in the future per OMB Circular A-11.

Condition: During beginning balance testing, a statistical sample of 364 UDOs established prior to FY 2023, which were not included in DISA GF's dormant adjustment, was selected for validity review. Testing revealed that 118 out of the 364 sampled UDOs were inappropriately classified or unsupported as of September 30, 2023. The following exceptions were identified:

- Seventy-two UDOs totaling $32.9 million confirmed to be dormant as of September 30, 2023
- Forty-two UDOs totaling $47.2 million where validity could not be confirmed due to inadequate invoicing or obligating support
- Four UDOs totaling $4.6 million where validity could not be confirmed due to use of memorandums as obligating documents, rather than a MIPR acceptance.

Cause: DISA GF's dormant control over UDOs does not provide an accurate, complete, or appropriate review and/or adjustment for the open UDO balances. DISA GF used a separate report to perform its dormant review, rather than the actual subsidiary records from its GL system. In some cases, the data in this report differed from the GL records, resulting in inaccurate determinations as DISA GF performed its dormant review. Additionally, DISA GF's review included an assumption that a credit or a partial ROEF on a UDO record indicated that it was valid; however, this activity does not always confirm that DISA GF intended to fulfill the UDO.

For the unsupported UDOs, validity could not be determined on UDOs due to issues noted during FY 2023 expense testing, such as expenses that were incurred in a prior year, insufficient service/delivery date documentation, or insufficient goods/service description. DISA GF does not have a systematic way to request and store all necessary third-party invoices to support expenses for reimbursable transactions.

Additionally, DISA GF did not have a process in place to ensure that all funding was accepted via MIPR acceptance or contract. Memos were used in place of the MIPR acceptance and documented to request funding.

Effect: The exceptions noted during beginning balance sample-based testing amounted to DISA GF's SBR Line 1071 being likely misstated by at least $32.9 million. However, due to the nature of this control deficiency, along with the unsupported activity, additional misstatements may exist in the balance. Without effective controls relating to the entity's dormant control, DISA GF is unable to determine the validity of the UDO population.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Update existing policies to ensure that funds holders are adequately assessing the validity of the open UDO balances and deobligate invalid UDOs when possible.
2. Implement policies, or update existing policies, which require the PSD to process contract actions timely once all goods and services have been provided to the customer.
3. Employ the same subledger for the UDO adjustment that is used for financial reporting.
4. Remove the use of credit invoices and partial deobligations to support validity of UDOs.
5. Ensure all documentation used to establish obligations, whether an SF or a memo, is explicit in its intent to authorize said obligations and is signed by appropriate personnel.

C. Inaccurate Upward and Downward Adjustments of Prior-Year Obligations

Background: Adjustments to unpaid obligations consist of USSGL Accounts 487100, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*; 488100, *Upward Adjustments of Prior-Year Undelivered Orders – Obligations, Unpaid*; 497100, *Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries*; and 498100, *Upward Adjustments of Prior-Year Delivered Orders – Obligations, Unpaid*. These accounts represent modifications during the current FY resulting from downward or upward adjustments to obligations or delivered orders originally recorded in a prior FY. Recovered budget authority is presented on SBR Line 1071 and Upward Adjustments to budget authority is presented on SBR Line 2190, *New Obligations and Upward Adjustments*. DISA GF is responsible for developing policies and procedures to ensure that budgetary activity is accurately reported in accordance with USSGL guidelines.

DISA GF reported $292.9 million in Recoveries to USSGL Account 487100 and $30.8 million in Upward Adjustments to USSGL Account 488100 on its June 30, 2024 trial balance. The account balance is supported by transaction-level detail that contains information such as document number, project number, and amount, among other identifying details.

DISA GF developed a JV process starting in Quarter 2 of FY 2021 to remove inaccurate Upward and Downward Adjustments of Prior-Year Unpaid Obligations resulting from DAI posting logic issues. Specifically, DISA GF became aware that the processing of certain administrative modifications resulted in inappropriate postings to its budgetary accounts. To adjust for these inaccurate postings, DISA GF determines the inaccurate Upward or Downward Adjustments of Prior-Year Obligations from the UDO report, identifying matching transactions to General Ledger Account Codes 487100 and 488100.

DISA GF must not record obligation on expired funds per 31 United States Code (U.S.C.) 1502. DISA GF must accurately record obligations; the over-recording and the under-recording of obligations are equally improper per GAO's *Principles of Federal Appropriations Law*.

Condition: A statistical sample of 139 Recoveries of Prior-Year Obligations was selected for review. Identified exceptions related to a deobligating document that was signed in a prior FY but not recorded until the current FY, resulting in the transaction being recorded untimely. Other exceptions included a transaction that was not supported by a valid deobligating document or an adjustment to the GL being made for a correction of a processing error or administrative change. Other exceptions were noted where the supporting documentation consisted only of a White House Communications Agency (WHCA) memo requesting a decrease in funding that was not approved by DISA GF's vendor. ***Exhibit 3*** summarizes the exception results:*

Exhibit 3: Recoveries of Prior-Year Obligations Exception Results

Exception Type (4871)	Amount	Count
Untimely recording	$11.1 million	32
Correction of processing error/administrative change	$9.2 million	12
Request-only for funding change on WHCA memo	$2.2 million	2
Not supported by valid deobligating document	$456 thousand	2

*Some exception amounts may fall into multiple categories

A judgmental sample of 20 Upward Adjustments of Prior-Year Obligations was selected for review. Identified exceptions related to obligations signed in FY 2024 on FY 2023 Operations and Maintenance (0100) funding, creating an obligation on expired funding. Other exceptions included transactions representing administrative changes being recorded as 4881 adjustments and transactions where the upward adjustment obligating document was not signed in the current year, resulting in an untimely transaction. ***Exhibit 4*** summarizes the exception results:

Exhibit 4: Upward Adjustments of Prior-Year Obligations Exception Results

Exception Type (4881)	Amount	Count
Obligation on expired funding	$4.5 million	6
Administrative change	$3.2 million	4
Untimely recording	$2.5 million	3

Cause: Despite DISA GF's implementation of a new process to identify and adjust for erroneous transactions resulting from DAI posting logic issues, a significant number of unsupported or untimely transactions exist in DISA GF's accounts. Additionally, DISA GF's financial system, DAI, does not allow administrative changes on prior-year obligations without posting the administrative change through USSGL Accounts 487100 and 488100, causing errors on the SBR. There have been instances where DISA GF has not yet implemented effective control procedures to ensure that transactions recorded to USSGL Accounts 487100 or 488100 were properly supported upward or downward adjustments to prior-year obligations. DISA GF also did not have effective control procedures to ensure that transactions recorded in USSGL Accounts 487100 and 488100 were recorded in a timely manner in the correct FY due to mission partners failing to provide deobligating documents timely.

Additionally, DISA GF has reimbursable transactions for which the exact amounts at year-end are unknown. In the past, DISA GF recorded these transactions as unsupported end-of-year (EOY) modifications (MOD). To avoid recording the EOY MOD, DISA GF waited to record the transaction until known amounts were identified, resulting in obligations on expired funding.

Effect: SBR Line 1071 was misstated by at least $20.3 million and SBR Line Number 2190 was misstated by at least $10.1 million due to known errors as of June 30, 2024. Additionally, DISA GF violated 31 U.S.C. § 1502 (a) relating to recording obligations against expired funding sources.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Implement a process and control to work with mission partners ensure that all transactions recorded to USSGL Accounts 487100 and 488100 reference obligations recorded in a prior FY and are recorded timely.
2. Implement procedures to confirm that each transaction is supported by documentary evidence meeting the requirement for Government obligations of USSGL Account 487100 and 488100 transactions to ensure that any transactions are produced by accounting events (i.e., contractual obligation or deobligation and not administrative fund changes).
3. Work with the Program Management Office to ensure administrative changes to prior-year obligations post without an entry to USSGL Accounts 487100 and 488100 in the financial system.
4. Implement procedures to ensure obligations are not recorded on expired funding, either by recording obligations timely with estimated amounts or utilizing multi-year funding options.

D. Untimely Undelivered Order Transactions

Background: An obligation is a legally binding agreement that will result in outlays, immediately or in the future. When an agency places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the Government to make payments to the public or from one Government account to another, it incurs an obligation. Agencies should maintain policies, procedures, and ISs to ensure that obligations represent required Federal outlays, comply with laws and regulations, and are appropriately approved. DISA GF reported more than $1.95 billion in UDO on its June 30, 2024 trial balance. The account balance is supported by a subsidiary ledger that details information such as the document number, obligated amount, undelivered amount, and transaction date, among other unique identifying details for each UDO balance.

DISA GF is responsible for establishing controls to ensure DISA GF enters UDOs Without Advance into the financial management system timely.

DISA GF must record transactions promptly per GAO's *Standards for Internal Control in the Federal Government*.

Condition: DISA GF does not have effective controls in place to ensure that obligations are entered into the financial management system within 10 calendar days of execution of the obligating document. Substantive audit testing for DISA GF's Beginning Balance UDOs established in FY 2023 identified untimely entry of obligations. Specifically, testing identified the following issues on a sample size of 569 UDOs for an error rate of nearly 10%:

- Fifty-four orders, totaling $87.7 million in original obligations, were entered untimely, but were recorded in the correct FY
- Two orders, totaling $591.4 thousand in original obligations, were entered untimely and were recorded in the wrong FY.

Of these 56 total exceptions for timeliness, 32 exceptions were recorded 30 or more days after the obligating document was signed.

Cause: DISA GF does not have controls in place to ensure that obligations are entered into the financial management system within 10 days of execution of the original obligating document. DISA GF's root cause analysis did not identify specific issues causing the untimely UDOs. DISA GF did not have effective agency-wide monitoring controls to ensure timely recording of contracting actions.

Effect: Insufficient controls to ensure that obligations are recorded in a timely manner increase the risk that:

- Obligations will not be recorded in the proper period and, thus, will be misstated on DISA GF's financial statements
- 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 1982.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Perform a root cause analysis that identifies specific issues leading to the untimely recording of obligations.
2. Update controls to ensure the timely creation, approval, and recording of obligations. Specifically, DISA GF should implement controls at the obligation level to ensure that obligations are recorded in a timely manner to support funds control.
3. Develop a control to monitor open commitments to ensure obligations are recorded in a timely manner.

IV. Property, Plant, and Equipment (*New Condition*)

A. Property, Plant, and Equipment Completeness Issue

Background: The June 30, 2024 DISA GF General Property, Plant, and Equipment (PP&E) line item on the Balance Sheet was composed of equipment, software, and Construction in Progress (CIP) with a net book value (NBV) of $496.4 million. DISA GF utilizes the Defense Property Accountability System (DPAS) as its property management system, which provides property financial reporting information. DISA GF utilizes a separate property management system, Property Accountability Subsidiary Schedule (PASS), for reporting in the financial statements for WHCA assets. PASS was utilized DISA-wide in FY 2018 but replaced (with the exception of WHCA) during FY 2019. Two PASS files are created quarterly: one for assets from legacy information from the Washington Headquarters Services Allotment Accounting System and one for assets from FY 2019 and onward.

When purchases are made, the Office of the Chief Financial Officer routes potential capital asset purchases to DISA's Capital Asset Management (CAM) Team to manually review the acquisition package in DAI. The CAM Team determines if the asset is capital or non-capital using the Capital Determination Checklist. It is the responsibility of DISA GF management to ensure that expenditures are being properly recorded as either capital purchases on the Balance Sheet or expenses on the SNC.

When equipment or software arrives at a project site or DISA Logistics Headquarters, pertinent shipping documentation is sent to appropriate offices. This shipping documentation is used in conjunction with the project's associated MIPR and contract to help the CAM Team complete the valuation worksheet in order to value and determine capital assets. The Accountable Property Officer establishes initial entry of assets with associated supporting shipment documentation into DPAS. DISA GF is responsible for establishing controls to record assets timely and accurately in DPAS.

In FY 2023, NFR 2023-FIN-GF-26, *PP&E Completeness*, was issued relating to testing exceptions and internal control deficiencies impacting the completeness of DISA GF's PP&E accounts.

DISA GF must record capital assets accurately in the correct accounting period. PP&E shall be recognized when the title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. Constructed PP&E must be recorded as CIP until it is placed in service per the SFFAS No. 6, *Accounting for Property, Plant, and Equipment*. Additionally, DISA GF must design control activities so that all transactions are completely and accurately recorded per GAO's *Standards for Internal Control in the Federal Government*.

Condition: In FY 2024, DISA GF performed an analysis over its expenses to determine the full extent of the errors communicated in NFR 2023-FIN-GF-26 and identified $172.2 million incorrectly expensed assets that should have been capitalized.

In an FY 2024 statistical sample, 565 expense transactions were subject to testing related to PP&E completeness testing. Testing revealed one exception totaling $2.7 million that was incorrectly expensed and should have been capitalized.

In addition, DISA GF management did not identify activated assets in a timely manner. The following errors were noted in DISA GF's PP&E account:

- DISA GF did not record Non-WHCA equipment with an NBV of $5.8 million in the correct FY
- DISA GF did not record $1.9 million of Non-WHCA CIP invoices in the correct FY
- DISA GF did not record software with an NBV of $1.5 million with a recorded activation date from FY 2023 in the correct FY
- DISA GF did not record $10.1 million of WHCA Equipment invoices in the correct FY.

Cause: DISA J-8 did not complete its internal control procedures, which includes identifying potential capital purchases and notifying the CAM Team to complete the Capital Determination Checklist. DISA GF's program (Joint Service Provider) did not route purchases through the capital review process in DAI during the requisition process.

The untimely asset activation generally resulted from inconsistent or ineffective communications between program officials responsible for the assets and DISA GF officials who are responsible for property accounting. Additionally, due to DISA's decentralized environment with equipment in locations worldwide, DISA personnel do not always provide documentation to the DISA CAM Team timely or have a consistent understanding of property accounting requirements.

Effect: DISA GF identified a $172.2 million understatement of DISA GF's PP&E line of the September 30, 2023 Balance Sheet and an overstatement of $172.2 million of the Gross Costs line of the September 30, 2023 SNC due to inaccurately expensed assets. Additionally, the untimely asset activation and transfers resulted in an understatement of approximately $19.2 million NBV on the PP&E line of the Balance Sheet, for a combined impact of a $191.4 million understatement of DISA GF's PP&E line of the September 20, 2023 Balance Sheet.

In addition, the incorrectly expensed asset in the FY 2024 expense testing resulted in a $2.7 million understatement of DISA GF's PP&E line of the June 30, 2024 Balance Sheet and an overstatement of $2.7 million of the Gross Costs line of the June 30, 2024 SNC.

Because DISA GF lacks an effectively design control over PP&E completeness, material misstatements have occurred. There is also an increased risk that additional material misstatements could occur and not be prevented, or detected and corrected, in a timely manner.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Increase coordination between the DISA CAM Team, DISA Financial Management Team, and DISA's main program officials who are responsible for significant property inventories. This may include property management and property accounting training programs for DISA's program officials.
2. Expand its existing control for the Capital Determination Checklist to ensure that all equipment purchases are included in the control.
3. Review existing agreements that are not subject to the Capital Determination Checklist to ensure additional misstatements are corrected timely.
4. Further develop an effective control and process to monitor assets for timely activation and ensure they are recorded in the financial statements in a timely manner by JV if received after the DPAS shutdown period before month-end.
5. Implement an effective control and process to notify the CAM Team when shipments arrive or depart site locations, in addition to enhanced coordination with Property Custodians on asset shipments.
6. Develop and implement a process to ensure and document that software is activated and recorded in the correct FY.

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Significant Deficiencies

Throughout the course of our audit work of the Defense Information Systems Agency (DISA) General Fund (GF), we identified internal control deficiencies which were considered for the purposes of reporting on internal control over financial reporting. The significant deficiencies 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 5*** presents the significant deficiencies identified during our audit:

Exhibit 5: Significant Deficiencies

Significant Deficiency	Significant Deficiency Sub-Category
I. Fund Balance with Treasury	A. Suspense 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
II. Information Technology	A. Incomplete Complementary User Entity Controls Implementation

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

Deficiencies in four related areas, in aggregate, define this significant deficiency:

A. Suspense 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

A. Suspense Reconciliation and Reporting Processes

Background: DISA GF's service organization manages, reports, and accounts for Fund Balance with Treasury (FBWT) budget clearing (suspense) account activities to the U.S. Department of the Treasury (Treasury). In addition to monitoring and approving the FBWT reconciliations performed by its service organization on its behalf, DISA GF is responsible for the complete and accurate reporting of FBWT on its financial statements and disclosures.

Suspense 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 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 suspense accounts are available for obligation or expenditure while in suspense. Agencies should have a process to research and properly record suspense account transactions in their general ledgers (GL) timely. Transactions recorded in DoD suspense are required to be reconciled monthly and moved to the appropriate Line of Accounting (LOA) within 60 business days from the date of transaction.

On behalf of DoD agencies, including DISA GF, DISA GF's service organization prepares materiality assessments quarterly using a combination of historical data and the current quarter's raw Universe of Transactions (UoT) to estimate the potential impact of outstanding suspense transactions to each DoD entity. The raw UoTs have not been fully researched to identify transaction count and dollar amount impact to DISA GF and other DoD entities and could contain summary lines. Fully researched UoTs are not available until 53 days after quarter-end and year-end financial reporting timelines.

DISA GF suspense transactions, if any, at the time of initial recording, are not included on DISA GF's financial statements. This increases the risk of a misstatement on DISA GF's reported FBWT, as well as the other impacted line items, including Accounts Payable (AP) for disbursements, Accounts Receivable (AR) for collections, and the related budgetary accounts.

DISA GF must reconcile its FBWT activity monthly per the Treasury Financial Manual (TFM).

Condition: DISA GF, 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 GF collections and disbursements that should be recognized in DISA GF's accounting records. Additionally, DISA GF does not have effective controls over the validation of its recorded disbursements and collections, as they impact complementary line items, including AP, AR, and related line items on the Statement of Budgetary Resources, to ensure it is accounting for all transactions that should be reported on its books. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and fiscal year (FY)-end financial reporting.

While DISA GF's service organization prepares quarterly suspense materiality assessments for each Treasury Index (TI) to advise DISA GF and other Defense agencies of the potential count and dollar amount of suspense transactions belonging to them, based on previously resolved and cleared suspense transactions, the uncleared suspense transactions included in the assessment are material. As of FY 2024 Quarter 3, the following were noted as "to be determined" (TBD) in the suspense final UoTs:

- TI-17: 170/1,400 transactions (12%) for $1.9 million net; $7.5 million absolute (ABS) (43%)
- TI-21: 775/2,703 transactions (29%) for ($20.8 million) net; $33.8 million ABS (28%)
- TI-57: 312/953 transactions (33%) for ($5.3 million) net; $17 million ABS (48%)
- TI-97: 14,372/15,165 transactions (95%) for $($61.2 million) net; $403.9 million ABS (73%).

In addition, DISA GF's service organization has not implemented effectively operating control activities to ensure the accuracy and completeness of the suspense UoTs. Specifically, of the samples selected from the Q2 suspense UoT for testing, 33 were identified as either requiring on-site testing, summary lines, or both. DISA GF's service organization did not know the status of these samples until after selection and did not communicate the additional testing efforts required for these samples in a timely manner. These factors created unforeseen challenges and increased risks to DISA GF's FBWT. The summary lines and other transactions requiring on-site testing increased the required testing efforts and provided further evidence of the risk that the suspense population was inaccurate and incomplete. This also created a risk that the samples could not be supported and tested, either due to limitations of on-site testing or the inability of DISA GF's service organization to provide additional sample documentation timely. Specifically:

- Five samples were identified as summary lines which extrapolated to a total of 188 individual transactions. Due to the need to select sub-samples, the tested amount for the TI-21 samples increased from $16.3 million ABS to $17 million ABS, respectively. The TI-97 sample increase could not be confirmed, as the ABS amounts were not provided in the sub-sample populations
- Twenty-eight samples were identified as requiring on-site testing for ($38.8 million) net; $125 million ABS, or 18% of the total sample selection by ABS dollars.

Cause: DISA GF'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. That manual research and resolution is what supports the production of the final UoTs and materiality assessments but takes a significant amount of time, which is the cause of them not being available in a timely manner for financial reporting. Additionally, at the time of UoT availability, there has been a significant volume of transactions for a material dollar amount in suspense that has not been identified to an entity and is listed in the UoT as "TBD," as well as unknown samples that require on-site testing and summary line transactions.

In addition, DISA GF and its service organization have not designed and implemented a methodology to determine the financial reporting impact of DoD suspense account balances to DISA GF's financial statements for financial reporting in a timely manner sufficient for quarterly and annual financial reporting timelines, including the impact of possible missing collections and disbursements for AP and AR. The assessments do not identify amounts attributed to DISA GF for the current quarter, but estimate the amount based on historical data. Per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, DISA GF's FBWT represents its claim to the Federal Government's resources and its accounts with Treasury for which DISA GF is authorized to make expenditures and pay liabilities. The materiality assessment methodology is not designed effectively as it pertains to recording a FBWT projection, should a material misstatement be identified. SFFAS No. 1 does not permit FBWT as a viable account for estimated amounts.

Effect: DISA GF 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 effective internal controls and processes to determine the financial reporting impact of the suspense balances inhibits DISA GF's ability to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other related financial statement line items, as applicable.

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

1. Coordinate with its service organization to continue to develop procedures to determine what portion of the suspense balances, if any, should be attributed to DISA GF for financial reporting in a timely manner and made available for year-end financial reporting purposes.
2. Coordinate with its service organization to continue to monitor and track the resolution of suspense activity cleared to DISA GF to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."
3. Coordinate with its service organization to continue to work to develop effective system and process controls to ensure that disbursements and collections are processed with valid TI, Treasury Account Symbol (TAS), and FY inputs.
4. Coordinate 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.
5. Coordinate with its service organization to continue to develop and implement a process to establish unique identifiers for each transaction in suspense UoTs that roll forward from period to period. DISA GF's service organization should develop controls over the establishment and roll-over of those unique identifiers that can be tested for reliance.
6. Coordinate with its service organization to develop and implement a process to validate that all lines in a UoT that are considered "final" are detail lines and not summary lines.
7. Continue implementing business process improvements in the related financial statement line items to prevent items from reaching suspense. Specifically, DISA GF should develop and implement monitoring controls and processes for AR and AP balances to reduce the risk of DISA GF having a material amount of disbursements and collections not reflected on its financial statements.
8. Research and resolve suspense transactions by correcting the transactions in source systems and assist DISA GF's service organization with necessary supporting documentation for corrections, if needed.
9. Obtain and review the quarterly materiality assessments and underlying transaction data to identify root causes of why DISA GF's transactions are in suspense and not on DISA GF's books. DISA GF should design and implement processes and controls to respond to those root causes.

10. Pursuant to receiving the necessary information and documentation from DISA GF's service organization, develop and implement procedures to identify DISA GF's suspense account balances for recording and reporting into the GLs and financial statements.

B. Statement of Differences Reconciliation and Reporting Processes

Background: DISA GF's service organization provides daily Non-Treasury Disbursing Office (NTDO) disbursing services under various Agency Location Codes (ALC), often referred to as Disbursing Station Symbol Number (DSSN). Additionally, DISA GF'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 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.

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 by Treasury each month in the Central Accounting Reporting System (CARS). The SOD report identifies discrepancies between the collections and disbursements reported to Treasury and the transactions that were processed by the ALCs each month (i.e., the month the report is generated).

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 within the ALCs are required to research and resolve DIT, IPAC, and Check Issued differences monthly. DISA GF's service organization has three reporting ALCs which are responsible for month-end reporting of collections and disbursements to Treasury. Further, as a reporting entity, DISA GF is responsible for researching and resolving differences identified on the FMS 6652 for the ALCs that process its transactions to determine whether its transactions are included in an SOD and erroneously omitted from its financial statements.

DISA GF must reconcile its FBWT activity monthly per the TFM.

Condition: DISA GF, in coordination with its service organization, has not implemented a monitoring control to ensure that transactions that compose the SOD balances in DISA GF's primary DSSNs do not contain DISA GF collections and disbursements that should be recognized in the entity's accounting records. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and FY-end financial reporting. While DISA GF's service organization prepares quarterly SOD materiality assessments at the DSSN level, for DISA GF's service organization's managed DSSNs, to identify the total count and dollar value of the SOD transactions resolved to DISA GF and other Defense agencies, the uncleared SOD transactions included in the assessments are significant.

Cause: DISA GF's service organization's process to create the UoT for SODs is a time-intensive and manual process that requires the consolidation of multiple files from various sources. The SOD UoTs continue to contain a high volume of collection and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoTs and materiality assessments, but takes a significant amount of time, resulting in them being unavailable for financial reporting. Additionally, at the time of UoT availability, there is a significant volume of transactions, for a significant dollar amount, making up the SOD balances that have not been identified to an entity and are listed in the UoTs as "TBD."

While DISA GF's 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 LOA information continue to make it difficult to resolve differences timely.

Effect: Without receiving the complete and final SOD UoTs from DISA GF's service organization in a timely manner, DISA GF is unable to identify its transactions that are included within SODs, if any, to recognize amounts within its accounting records in the period in which the transactions were processed. Further, without additional compensating controls and/or monitoring procedures, DISA GF is unable to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

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

1. Coordinate with its service organization to monitor and track the resolution of SODs cleared to DISA GF to enable the entity to perform root cause analysis and develop compensating controls for financial reporting purposes.
2. Coordinate with its service organization to continue to develop procedures to determine what portion of the SOD balances, if any, should be attributed to DISA GF for financial reporting in a timely manner and made available for year-end financial reporting purposes.
3. Coordinate with its service organization to continue to monitor and track the resolution of SOD activity cleared to DISA GF to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."
4. Coordinate with its service organization to continue to develop effective system and process controls to ensure that disbursements and collections are processed with valid TI, TAS, and FY inputs.
5. Coordinate with its service organization to assess and identify ALCs that primarily report collection and disbursement activity to Treasury on behalf of DISA GF.
6. Coordinate with its service organization to coordinate recurring meetings with DISA GF to help resolve outstanding differences.
7. Pursuant to receiving the necessary information and documentation from DISA GF's service organization, develop and implement procedures to identify DISA GF's actual or estimated SOD balances for recording and reporting adjustments within the financial

statements.

8. Assist DISA GF's service organization by providing supporting information to clear transactions reported in SODs timely.
9. Work with Treasury, the Office of the Secretary of Defense (OSD), DISA GF's service organization, and other parties to transition away from using monthly NTDO reporting ALCs to daily TDO reporting ALCs.
10. Consider any limitations to DISA GF's service organization's SOD process and develop compensating controls to reconcile SOD balances to minimize the risk of a potential material misstatement.

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

Background: DISA GF is one of the TI-97 Other Defense Organizations (ODO) 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 GF's FBWT balance from the combined ODO FBWT amount. DISA GF's service organization's Treasury Division produces the Cash Management Report (CMR) to provide ODOs with individual FBWT at the 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)
  - Hcd50css.txt: This file contains prior-year appropriations
  - Hcb04y01.txt (Edit Table 4): This file converts data utilizing single position (digit) FY (HQARS) to four position (digit) FY used by the CMR for Period of Availability
    - Treasury Appropriation Fund Symbol to B12: This file is a comparison of the current and prior-month Edit Table 4
  - CIGGAX.txt: This file contains all of current/prior-month HQARS receipt/expenditure transactions
- Defense Cash Accounting System (DCAS)
  - OSDLimitConvTable.csv: This file contains Navy subhead to OSD Crosswalk information
- Treasury CARS data
  - CARS_EXPEND.csv
  - CARS_RECEIPTS.csv
- Defense Departmental Reporting System (DDRS)
  - CMR_Funding.csv: Contains TI-97 funding.

DISA GF's service organization consolidates expenditure and budgetary data from HQARS, DCAS, CARS, and DDRS and then transfers the compiled activity to a C# database to create the CMR. DISA GF's service organization disaggregates the CMR and uses it to generate TI-97 Audit Workbooks, which are ingested into DDRS – Budgetary (B) to calculate automated undistributed adjustments, which force DISA GF's FBWT balance to reconcile to the CMR at the limit level. As a DoD Component, DISA GF is responsible for monitoring and approving the reconciliations performed by its service organization on its behalf.

DISA GF must reconcile its FBWT activity monthly per the TFM.

Condition: There are internal control deficiencies identified in the CMR creation process that negatively impact DISA GF's ability to support the completeness and accuracy of its FBWT balance. DISA GF's service organization does not have effectively designed procedures or controls in place to validate the information imported into HQARS for the CMR creation process and ensure the final CMR is accurate and complete. Specifically:

- DISA GF's service organization creates the CMR to determine the FBWT balance for each TI-97 agency at the limit level. The CMR contains unidentified variances and reconciling differences, not attributed to a specific agency at the time of creation, which could contain transactions belonging to DISA GF and could pose a completeness risk to DISA GF
- The data in the CMR is obtained from a number of different sources, from various networks, which use a variety of structures for myriad data elements. DISA GF's service organization has created databases to convert the data into a consistent format that is compatible with HQARS. Of the nine documented controls in place, four are manual only and the remaining five have manual components. The primarily manual nature of the controls and procedures increases the risk of errors in the reported data. The current controls in place will not effectively detect, prevent, or correct a misstatement in DISA GF's reported FBWT balance in a timely manner.

Cause: DISA GF shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA GF is dependent on its service organization to provide the FBWT amount on the financial statements. Additionally, the CMR is created in a secure environment with significant and material amounts of data coming from legacy systems. This further inhibits the ability to validate data elements for DISA, as the data is aggregated with an unknown number of other agencies, in a limited access, secured environment, and, therefore, research is limited. While DISA GF's service organization has developed a CAP to remediate this issue, the corrective actions are not planned to be fully in place until March 30, 2029.

Effect: The internal control deficiencies surrounding the CMR creation process may impact DISA GF's ability to: 1) support its financial statement balances in a timely manner; 2) support the completeness and accuracy of its FBWT; and 3) decrease the risk that errors or necessary adjustments exist but remain undetected by management. 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 GF's financial statements may contain significant misstatements that may not be detected and corrected in a timely manner.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Coordinate with its service organization to implement appropriate front-end controls that validate data before or as it is being ingested into HQARS, not long after the creation of the CMR process.
2. Coordinate with its service organization to create the CMR in a system with appropriate general application information technology controls to prevent changes to the data without appropriate authorization.
3. Coordinate with Treasury to establish subaccounts under the basic symbols used by DISA GF (0100, 0300, 0400, 0500) that are unique to DISA GF 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.

D. Cash Management Report Reconciliation and Reporting Procedures

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

The CMR is broken up into several categories based on TAS and limit, when the limit is known. Two of these categories are: Reconciling Items (edit issues) and Unidentified Variances. For the transactions in these categories, the owner agency has not been identified at the time of reporting and, therefore, is not reported on any specific ODO's financial statements, including DISA GF's. DISA GF's service organization is responsible for tracking, researching, and resolving the Reconciling Items and Unidentified Variances timely as part of the TI-97 FBWT reconciliation. The CMR Reconciling Items and Unidentified Variances pose a completeness risk to DISA GF's reported FBWT and could potentially result in material misstatements for any one specific TI-97 agency, including DISA GF.

DISA GF must reconcile its FBWT activity monthly per the TFM.

Condition: DISA GF, 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 GF collections and disbursements that should be recognized in DISA GF's accounting records. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and FY-end financial reporting. While DISA GF's service organization prepares quarterly CMR materiality assessments to advise DISA GF and other Defense agencies of the potential count and dollar amount of Reconciling Items and Unidentified Variances transactions belonging to them, based on previously resolved and cleared transactions, the uncleared CMR transactions included in those assessments are substantial. Additionally, at the time of UoT availability, there is historically a significant volume of transactions, for a material dollar amount, making up the CMR balances that have not been identified to an entity and are listed in the UoTs as "TBD." As of FY 2024 Q3, 1,713 out of 4,863 transactions (35%) totaling $11 million net and $63.1 million ABS (25%) were noted as "TBD" in the CMR UoT.

Cause: DISA GF shares TI and TAS with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA GF is dependent on its service organization to provide the FBWT amount on the financial statements in order to balance with the CMR. DISA GF's service organization's process to create the UoT for the CMR is time-intensive and manual, requiring the consolidation of multiple files from various sources. The CMR UoT continues to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoT and materiality assessment but takes a significant amount of time, making them unavailable for financial reporting.

Effect: DISA GF cannot identify or record CMR Reconciling Items or Unidentified Variances activity belonging to DISA GF 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 GF's ability to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Coordinate with its service organization to continue to develop and implement procedures to resolve differences between the CMR and CARS monthly and identify the agencies for which the differences impact.
2. Coordinate with its service organization to continue to monitor and track the resolution of the various CMR differences categories cleared to DISA GF to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."
3. Coordinate with its service organization to develop effective system and process controls to ensure that disbursements and collections are processed with valid TI, TAS, and DoD limits.
4. Work with Treasury to establish subaccounts under the basic symbols used by DISA GF (0100, 0300, 0400, 0500) that are unique to DISA GF so that it can obtain Treasury CARS reports to document its FBWT balance directly from Treasury and remove the need for the CMR.
5. Work with Treasury, OSD, DISA GF's service organization, and other parties to transition away from using monthly non-CARS reporting ALCs to daily full CARS reporting ALCs.
6. Obtain and review the quarterly materiality assessments and underlying transaction data to identify root causes of why DISA GF's transactions are in the Reconciling Items and Unidentified Variances and not on DISA GF's books. DISA GF should design and implement processes and controls to respond to those root causes.

7. Consider any limitations to DISA GF's service organization's CMR reconciliation process and continue developing compensating controls to reconcile the CMR to minimize the risk of potential material misstatement.

II. Information Technology (*Modified Repeat Condition*)

A. Incomplete Complementary User Entity Controls Implementation

Background: DISA GF utilizes several service organizations to support its operations and mission. As such, DISA GF 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 System and Organization Controls (SOC) report. In FY 2024, 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., Complementary User Entity Controls [CUEC]) to achieve the overall control objectives and create a secure computing environment. Specifically, Statement on Standards for Attestation Engagements 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 GF 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 GF relies. For example, DISA GF utilizes the Defense Logistics Agency's (DLA) Defense Agencies Initiative (DAI) system for financial management; DLA's Defense Property Accountability System (DPAS) for logistics and property management services; DLA's Wide Area Workflow (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; the Defense Manpower Data Center's Defense Civilian Personnel Data System (DCPDS) for processing payroll affecting civilian human resource transactions; the Chief Digital and Artificial Intelligence Office Directorate for Business Analytics' Advancing Analytics (Advana) for data analytics; and DFAS's Mechanization of Contract Administration Services (MOCAS) for managing procurement payment and entitlement determinations of contract data for delivery and other reporting.

DISA GF should implement all CUECs required by its service organizations, as documented in the service organizations' SOC reports, per NIST SP 800-53, Rev. 5, Control SA-9, "External System Services," and GAO's *Standards for Internal Control in the Federal Government* (Green Book, 2014), Section 4.

Condition: DISA GF has not implemented all CUECs required by its service organizations. Based on a subset of high-risk CUECs (e.g., cross-system segregation of duties [SD] and removals) required by DISA's service organizations, examples of control deficiencies indicating CUECs that DISA has not fully implemented or are not operating effectively include the following:

- DISA GF did not develop cross-system SD documentation to detail conflicts that may occur when personnel obtain access to multiple systems utilized by DISA GF, to include, but not be limited to, ADS, Advana, DAI, DCAS, DCPS, DCPDS, DDRS, DPAS, MOCAS, and WAWF
- DISA GF did not consistently remove or disable access to DISA GF users of the DAI and WAWF applications upon their separation from the agency.

Cause: Although DISA GF was aware of the requirements for implementing the CUECs and had begun implementation, it had not finalized implementation of all CUECs as of the end of the FY 2024 financial statement audit. DISA GF has continued to refine its existing process, as documented within the CUEC Review Process narrative. Specifically, DISA GF continues to identify and implement compensating controls to remediate control gaps identified during the reviews performed over the CUECs identified within each service organization's SOC 1®, Type 2 report. Additionally, DISA GF maps the relevant CUECs to the corresponding DISA GF-performed control. Further, due to the large number of CUECs, DISA GF established a phased approach and executed it to test CUECs based on level of risk and document results of implementation.

Effect: DISA GF's failure to implement internal controls to address all required CUECs may result in ineffective controls/control objectives. As SOC 1®, Type 2 reports address the effectiveness of controls related to the user entity's financial reporting, ineffective controls/control objectives (i.e., Access Controls, Security Management, and Configuration Management) increase the risk of negative impact to the confidentiality, integrity, and availability of data supporting DISA GF's financial statements.

Recommendation: Kearney recommends that DISA GF perform the following:

1. Implement all CUECs identified within each service organization's SOC 1®, Type 2 report.
2. Identify gaps for CUECs not designed and/or not operating effectively, as well as design and implement controls to remediate those gaps.

* * * * *

APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the Defense Information Systems Agency (DISA) General Fund's (GF) fiscal year (FY) 2023 Agency Financial Report (AFR), we noted several issues that were related to internal control over financial reporting. The statuses of the FY 2023 internal control findings are summarized in ***Exhibit 6***.

Exhibit 6: Status of Prior-Year Findings

Control Deficiency	FY 2023 Status	FY 2024 Status
Fund Balance with Treasury	Material Weakness	Significant Deficiency
Accounts Receivable/Revenue	Material Weakness	Material Weakness
Property, Plant, and Equipment	Significant Deficiency	Material Weakness
Accounts Payable/Expense	Material Weakness	Material Weakness
Budgetary Resources	Material Weakness	Material Weakness
Financial Reporting	Material Weakness	Not Applicable
Information Technology	Significant Deficiency	Significant Deficiency

KEARNEY & COMPANY

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

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

To the Director, Defense Information Systems Agency, and 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. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Information Systems Agency (DISA) General Fund (GF) as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise DISA GF's financial statements and have issued our report thereon dated November 8, 2024. 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.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of DISA GF, we performed tests of DISA GF's 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 the financial statement amounts and disclosures, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). 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 FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-02, which are described in the accompanying **Schedule of Findings** as Items II and III.

The results of our tests of compliance with FFMIA disclosed instances in which DISA GF's financial management systems did not comply substantially with Section 803(a) requirements related to Federal financial management system 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** as Item I.

KEARNEY&
COMPANY

The Defense Information Systems Agency General Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DISA GF's response to the findings identified in our engagement to audit the financial statements and described in the accompanying memorandum attached to this report in the Agency Financial Report. DISA GF concurred with the findings identified in our engagement. DISA GF's response was not subjected to the other auditing procedures applied in the engagement of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing, and not to provide an opinion on the effectiveness of DISA GF's compliance. This report is an integral part of an engagement performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 in considering DISA GF's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2024

Schedule of Findings

Noncompliance and Other Matters

I. Federal Financial Management Improvement Act of 1996 Noncompliance/Other Matter (*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 (DISA) General Fund's (GF) 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 GF's financial statements. Because of the significance of this scope limitation, we were unable to determine whether DISA GF's financial statements contained material departures from GAAP.

KEARNEY&
COMPANY

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 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 GF'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. Noncompliance with Federal Managers' Financial Integrity Act of 1982 (*Repeat Condition*)

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

DISA GF 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 *Standards for Internal Control in the Federal Government*, as described by the material weaknesses in the accompanying *Report on Internal Control over Financial Reporting*.

III. Noncompliance with 31 United States Code 1502(a) (*New Condition*)

31 United States Code § 1502(a) limits obligations to the period of availability of the appropriation under which the obligation is recorded. DISA GF recorded six obligations, totaling $4.5 million, after the period of availability had expired.

DISA Management Comments to Auditor's Report

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

Mr. Kelly Gorrell
Kearney & Company
1701 Duke Street, Suite 500
Alexandria, VA 22314

Mr. Gorrell:

DISA acknowledges receipt of Kearney & Company's final audit report for DISA's FY 2024 General Fund (GF) financial statements.

We acknowledge the auditor-identified findings in the following key areas: 1) Property, Plant & Equipment, 2) Accounts Receivable/Revenue, 3) Accounts Payable/ Expense, and 4) Budgetary Resources each of which, in the aggregate are considered material weaknesses. We also acknowledge the auditor- identified findings in the Fund Balance with Treasury and Information Technology areas which are considered significant deficiencies.

DISA made great progress in FY 2024, specifically with closing the Financial Reporting material weakness and downgrading Fund Balance with Treasury from a material weakness to a significant deficiency. The remaining key areas have been identified above and DISA is focused on successful resolution of them during the upcoming audit cycle.

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JUSTIN SPONSELLER
Director, Accounting and
Audit Operations

Appendix A- DISA Organizational Chart

Joint Service Provider

Joint Force Headquarter-DoDIN

DISA Director JFHQ-DoDIN Commander

Deputy Director
- Procurement Services Directorate
- Chief Financial Officer and Comptroller

Assistant to the Director

Chief of Staff
- Workforce Services and Development Directorate

Digital Capabilities and Security Center
- Cyber Security and Analytics
- Joint Enterprise Services
- Defense Spectrum Organization
- Joint Interoperability Test Command

Hosting and Compute Center
- Compute Operations
- Operations Support
- Product Management

Enterprise Operations and Infrastructure Center
- Endpoint Services and Customer Support
- Transport Services
- Cyberspace Operations

Enterprise Integration and Innovation Center
- Emerging Technology and Enterprise Architecture
- Enterprise Engineering and Governance
- Risk Management Executive
- Chief Data Officer

Special Staff
- Chaplain Program Office
- Congressional Affairs Coordinator
- Office of Strategic Communication and Public Affairs
- General Counsel
- Inspector General
- Component Acquisition Executive
- Small Business Programs
- Protocol
- Pentagon Liaison Officer
- Office of Equality, Diversity and Inclusion

ADCON Organizations
- Joint Artificial Intelligence Center
- Secretary of Defense Communications
- White House Communications Agency
- White House Situation Support Staff