UNITED STATES DEPARTMENT OF DEFENSE

AGENCY FINANCIAL REPORT

FISCAL YEAR 2020

DEPARTMENT OF DEFENSE AT A GLANCE

www.defense.gov

BRIEF HISTORY

The Army, Navy, and Marine Corps were established in 1775, in concurrence with the American Revolution. The War Department was established in 1789, and was the precursor to what is now the Department of Defense. The Coast Guard (part of the Department of Homeland Security during peace time) was established in 1790. The Department of the Navy was established in 1798. The National Security Act of 1947 renamed the Department of War as the Department of the Army, created the Department of the Air Force, and unified command of the Military Departments under the "National Military Establishment" headed by a Secretary of Defense. The Department of Defense Reorganization Act of 1958 established the Combatant Commands.

Service members of the Joint Honor Guard participate in a Presidential Armed Forces Full Honors Wreath-Laying Ceremony at the Tomb of the Unknown Soldier at Arlington National Cemetery, Arlington, Va., November 11, 2019. PHOTO CREDIT: Staff Sgt. Vanessa Atchley

HEADQUARTERS

The Department of Defense is headquartered at the Pentagon, located in Arlington, Virginia. The Pentagon is one of the world's largest office buildings – it has 17.5 miles of hallways, three times the floor space of the Empire State Building, and houses about 26,000 employees. For Pentagon Tour information, click ***here***.

MISSION

To provide the military forces needed to deter war and protect the security of our country.

EMPLOYEES

The Department of Defense is the country's largest employer, with more than 2.1 million Military Service members and over 770 thousand civilian employees. For information on the armed forces, click ***here***.

Connect with Us

Facebook
www.facebook.com/DeptofDefense

Twitter
www.twitter.com/DeptofDefense

Instagram
www.instagram.com/deptofdefense

YouTube
www.youtube.com/user/DODvClips

LinkedIn
www.linkedin.com/company/deptofdefense/

ABOUT THE DEPARTMENT OF DEFENSE AGENCY FINANCIAL REPORT

The United States Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2020 provides an overview of the Department's financial information as well as preliminary summary-level performance results. The AFR demonstrates to the Congress, the President, and the public the Department's commitment to its mission and to accountability and stewardship over the resources entrusted to it. This report satisfies the reporting requirements contained in the following legislation:

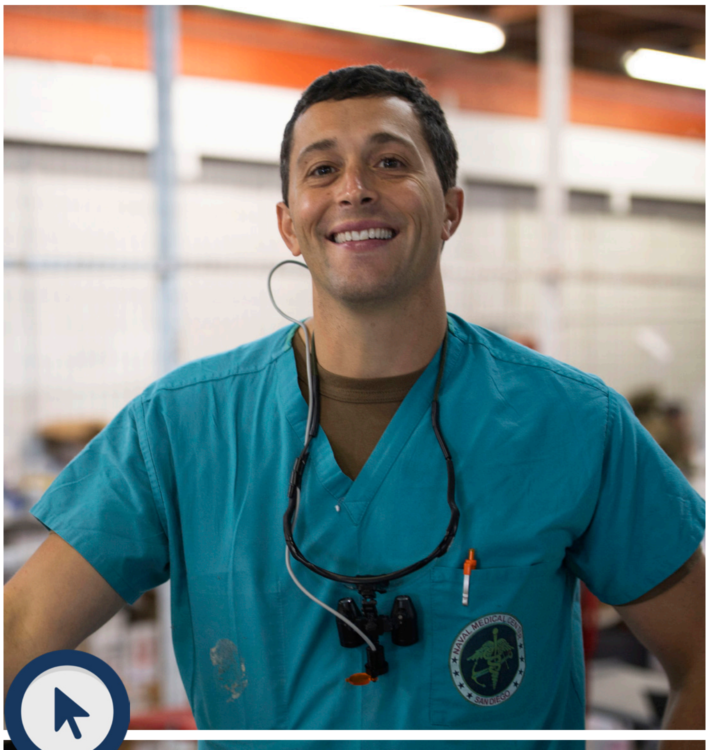
- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – requires ongoing evaluations and reports of the adequacy of internal accounting and administrative controls, and whether financial management systems comply with federal financial management systems requirements;
- Chief Financial Officers (CFO) Act of 1990, as amended – established the position of Chief Financial Officer and requires audited financial statements for each major executive agency;
- Government Management Reform Act (GMRA) of 1994 – delegates authority to the Director of the Office of Management and Budget to prescribe the form and content of the financial statements and to identify the components of executive agencies that will be required to have audited financial statements;
- Federal Financial Management Improvement Act (FFMIA) of 1996 – requires financial statement audits to assess the compliance of an agency's financial management systems with Federal requirements, Federal accounting standards, and the United States Government General Ledger;
- Reports Consolidation Act of 2000 – permits agencies to consolidate any statutorily required reports into a single annual report and requires certain information be contained in the consolidated report; and
- Payment Integrity Information Act (PIIA) of 2019 - requires agencies to improve their efforts to identify and reduce government-wide improper payments.

Pursuant to Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* the Department produces two separate annual reports in lieu of a combined Performance and Accountability Report (PAR):

- An AFR, published in November 2020, which focuses primarily on financial results and a high-level discussion of performance results, and
- An Annual Performance Report (APR), published in February 2021, which details DoD strategic goals and performance measures and results.

The estimated cost of this report or study for the Department of Defense is approximately $368,000 in Fiscal Years 2020 – 2021. This includes $163,300 in expenses and $204,700 in DoD labor.
Generated on 2020Nov12 RefID: 4-0A126C7

FACES OF DEFENSE



Each section cover of this report features a picture and story about Military Service members

Click this icon on each picture to read their stories

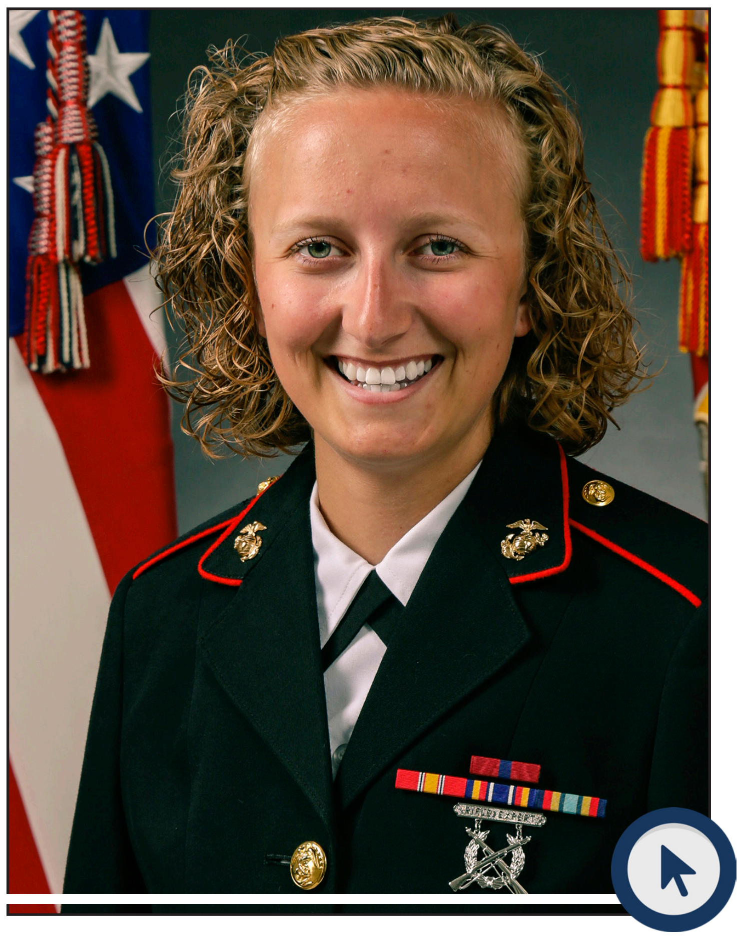


TABLE OF CONTENTS

PREFACE 06

11 MANAGEMENT'S DISCUSSION & ANALYSIS

The Management's Discussion and Analysis (MD&A) section provides a high-level overview of the Department's programmatic and financial performance. This section includes a summary of the Department's mission and structure, the current status of financial management systems, compliance with laws and regulations, and management assurances regarding internal controls.

FINANCIAL SECTION 71

This section provides a detailed look at the financial statements for the Department of Defense containing overall and financial statement notes.

221 OTHER INFORMATION

This section contains reports of financial and non-financial information required by various laws and regulations to be included in the Agency Financial Report.

APPENDICES 287

DEPARTMENT OF THE ARMY

MISSION

To deploy, fight and win our nation's wars by providing ready, prompt and sustained land dominance by Army forces across the full spectrum of conflict as part of the joint force.

FY 2020 NET COST OF OPERATIONS

($ in thousands)
Army General Fund: $171,332,077
Army Working Capital Fund: $(332,375)
Army Corps of Engineers (Civil Works): $8,782,219

PERSONNEL

Active: 486,329
Guard: 334,828
Reserve: 188,964
Civilian: 297,776

EQUIPMENT

Tanks: 17,609
Helicopters: 793
Other Combat Vehicles: 17,943

VALUE THE TAXPAYER RECEIVED FOR THE ARMY'S TOTAL NET COST

- Through multiple conflicts across a broad spectrum of operations in various locations around the world, the United States Army has proven to be the most capable ground combat force in history, defending the Nation and serving the American people for more than 244 years. The Army will be ready to deploy, fight, and win decisively against any near-peer adversary within this ever threatening environment, while concurrently deterring others and maintaining its ability to conduct irregular warfare where needed.
- In response to the COVID-19 epidemic, the Army called up 45,000 active-duty, National Guard, and Reserve Soldiers to support a government-led effort. The Army processed testing for more than 9.3 million American people and distributed roughly 400 million personal protective equipment items for those in need.
- The Army National Guard swiftly responded to airlift 214 civilians from an area engulfed in flames during the tragic wildfires that swept through California. The National Guard also provided aviation support that dropped nearly 900,000 gallons of water.

DEPARTMENT OF THE NAVY

MISSION

To protect America from attack and preserve America's strategic influence in key regions of the world. To deter aggression and enable peaceful resolution of crises on terms acceptable to the United States and our allies and partners. If deterrence fails, naval forces will conduct decisive combat operations to defeat any enemy.

FY 2020 NET COST OF OPERATIONS

($ in thousands)
Navy General Fund: $145,422,738*
Navy Working Capital Fund: $2,340,047*
Marine Corps: $27,968,359

PERSONNEL

Active: 532,000
Reserve: 97,300
Civilian: 220,901

EQUIPMENT

Battle Force Inventory (including 71 Submarines): 306
Aircraft: 4,075

VALUE THE TAXPAYER RECEIVED FOR THE NAVY'S TOTAL NET COST

- The Navy and Marine Corps provided forward postured sea-based forces providing security and stability around the globe with 54,000 Sailors and 36,000 Marines deployed or underway on 108 ships at any time, which includes three Carrier Strike Groups and two Expeditionary Strike Groups. Ninety percent of international trade travels by sea and US Naval forces ensure freedom of navigation for commercial trade vital to our national security.
- The inherent flexibility of Naval forces, in responding to Defense Support of Civil Authorities missions, was demonstrated when both Fleet Hospital ships, United States Naval Ship (USNS) Mercy and USNS Comfort executed short notice sorties to provide additional medical capability in Los Angeles and New York during the early months of the Coronavirus response. Sailors and Marines applied their training to a new mission set in responding to an unprecedented domestic emergency.
- Department of the Navy's commitment to remain an engaged, postured and ready force alongside our North Atlantic Treaty Organization partners is exemplified by numerous, multinational engagements in the Sixth Fleet area of responsibility. For instance, U.S. Marines Fighter Attack Squadron (VMFA) 211 "The Wake Island Avengers" and the United Kingdom's Lightning 617 Squadron are embarked onboard HMS Queen Elizabeth off the coast of the United Kingdom. VMFA-211 joined 617 Squadron onboard the 65,000-ton carrier as she sailed for exercises with NATO allies in the North Sea, forming the largest 5th generation Carrier Air Group in the world.

*The Navy General Fund and Working Capital Fund costs will be finalized in December 2020.

DEPARTMENT OF THE AIR FORCE

MISSION

Fly, fight and win...in air, space and cyberspace.

FY 2020 NET COST OF OPERATIONS

($ in thousands)
Air Force General Fund: $174,572,355
Air Force Working Capital Fund: $2,348,910

PERSONNEL

Active: 332,800
Guard/Reserve: 177,800
Civilian: 178,400

EQUIPMENT

Aircraft: 6,352
Intercontinental Ballistic Missiles: 397
Mine-Resistant Ambush Protected vehicles: 894

VALUE THE TAXPAYER RECEIVED FOR THE AIR FORCE'S TOTAL NET COST

- The Air Force is prepared to establish air superiority anywhere on the globe and in space to ensure that other Air Force missions (such as surveillance and reconnaissance) and the capabilities of sister services are available to combatant commanders to establish dominance anywhere. It includes the ability to control the air so that U.S. military forces are not concerned about being attacked from the air, while ensuring that joint forces have the freedom to attack in the air, on the ground, and at sea.
- The Air Force's nuclear and conventional precision strike forces can deter, credibly threaten, and effectively conduct global strikes by holding any target on the planet at risk and, if necessary, disabling or destroying it promptly—even from bases within the continental United States. These forces possess the unique ability to achieve tactical, operational, and strategic effects all in a single combat mission. Global strike missions include a wide range of crisis response and escalation-control options, such as providing close air support to troops at risk, interdicting enemy forces, inserting special operations forces, or targeting an adversary's vital centers. Whether employed from forward bases or enabled by in-flight refueling, a global strike derives from a wide range of systems that include bombers, missiles, special operations platforms, fighters, and other Air Force aircraft.
- The United States Space Force (USSF) was established as the newest branch of the Armed Forces, tasked with protecting U.S. interests and superiority in space and outpacing future threats. In the next decade, USSF will pursue three objectives under the Defense Space Strategy: Maintain Space Superiority; Provide Space support to National, Joint, and Combined Operations; and Ensure Space Stability.

MESSAGE FROM THE DEPUTY SECRETARY OF DEFENSE

November 16, 2020

On behalf of our Nation's military uniformed personnel serving at home and around the world, I am honored to present the Department of Defense Agency Financial Report for Fiscal Year 2020. This report provides the President, Congress, and the American people with information on the taxpayer resources entrusted to the Department in fiscal year 2020, as well as the means to assess our management of those resources, our accomplishments, challenges, and vision for the future.

This year, the United States – and the world – faced unprecedented challenges caused by the coronavirus pandemic. From the early days of the outbreak, the Department has prioritized taking care of our people, maintaining our readiness, and supporting the whole-of-nation response and recovery effort. This included repatriating and housing 2,000 American evacuees from China in January, deploying uniformed medical personnel to provide relief to hotspots around the country, maximizing the use of telework across our workforce, implementing a plan for testing and monitoring our forces worldwide, and working to expedite the delivery of a vaccine at scale to the American people. Overall, more than 60,000 DoD personnel – including more than 47,000 National Guard members and roughly 4,200 medical personnel – have participated in response efforts across all 50 states, territories, and the District of Columbia, often risking their own health and safety to help their fellow Americans. I personally thank each member of the DoD workforce, uniformed and civilian, for remaining steadfast during this difficult time and continuing to execute the Department's mission. You are our greatest resource, and your hard work at home and abroad keeps our Nation safe and secure.

Through these difficult times, the Department has remained agile, flexible, and committed to continuing its annual financial statement audit regimen. Though the audit resulted in a Disclaimer of Opinion and identified material weaknesses, these were expected steps in our ongoing journey toward achieving full auditability and an unmodified audit opinion. The auditor findings and recommendations continue to provide us with invaluable information that help us target and prioritize corrective actions as we strive to improve the quality of our financial reporting process and data. The Management's Discussion and Analysis section of this report provides our Statement of Assurance, which outlines the Department's assessment of material weaknesses and compliance with relevant laws and regulations. The Financial Section provides the Independent Auditor's Report, which details the results of this year's audit.

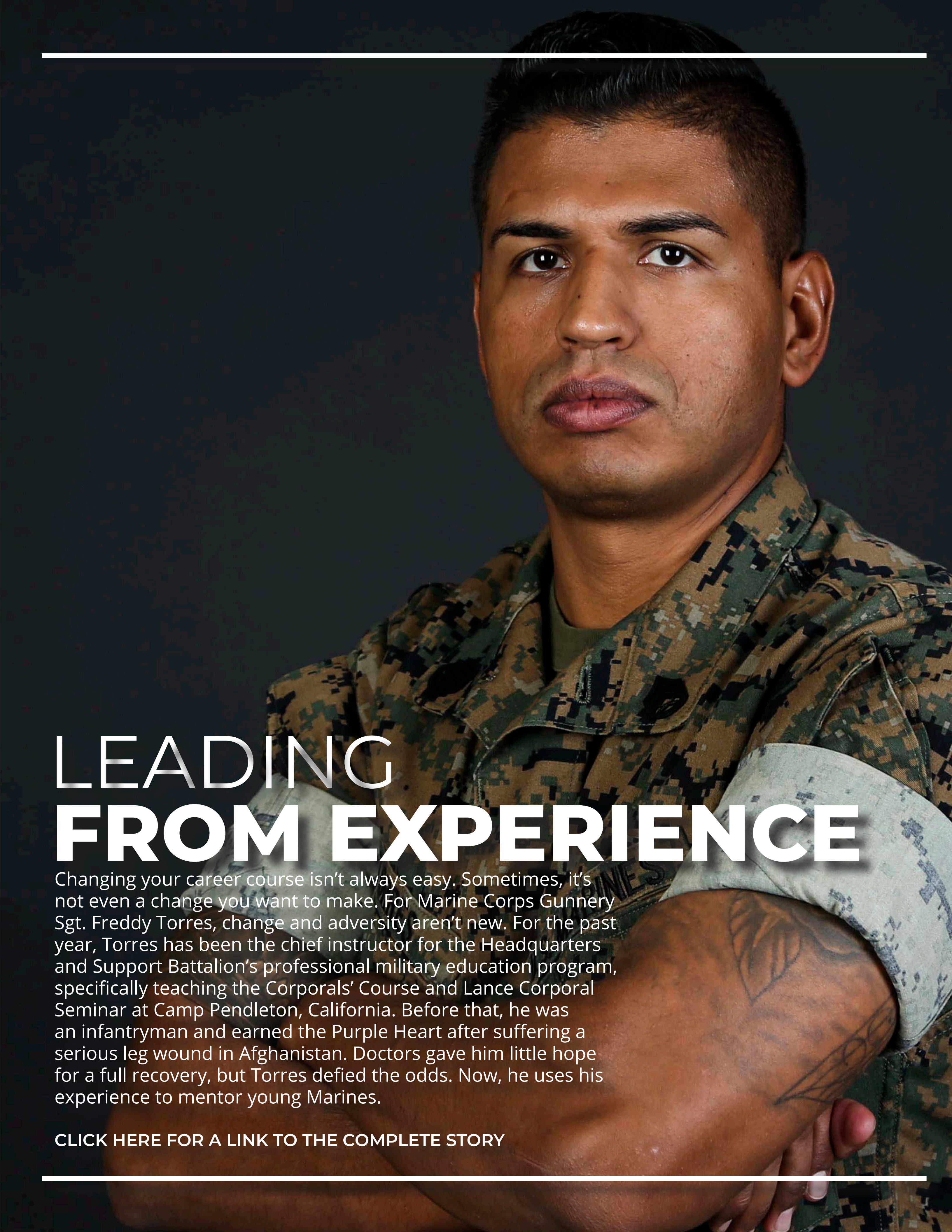
Audit remediation is one of the major components of the National Defense Strategy's (NDS) line of effort focused on reforming our business processes for greater efficiency and effectiveness. Modernizing and reforming these practices will enhance our stewardship of taxpayer resources, as we continue to identify opportunities that improve our support to the warfighter and free up time, money, and manpower for reallocation to higher NDS priorities. The Department of Defense is grateful to the Congress for its support and investment in our mission, which has allowed us to continue our vital work to protect the American people and U.S. interests. We remain committed to demonstrating efficient and accountable management of our resources, and are confident that this report will impart an improved understanding and appreciation for the great strides we have made toward stronger fiscal transparency and performance.

David L. Norquist

This page is intentionally left blank

MANAGEMENT'S DISCUSSION & ANALYSIS

PROVIDES A HIGH LEVEL OVERVIEW OF THE DEPARTMENT'S PROGRAMMATIC AND FINANCIAL PERFORMANCE



LEADING
FROM EXPERIENCE

Changing your career course isn't always easy. Sometimes, it's not even a change you want to make. For Marine Corps Gunnery Sgt. Freddy Torres, change and adversity aren't new. For the past year, Torres has been the chief instructor for the Headquarters and Support Battalion's professional military education program, specifically teaching the Corporals' Course and Lance Corporal Seminar at Camp Pendleton, California. Before that, he was an infantryman and earned the Purple Heart after suffering a serious leg wound in Afghanistan. Doctors gave him little hope for a full recovery, but Torres defied the odds. Now, he uses his experience to mentor young Marines.

CLICK HERE FOR A LINK TO THE COMPLETE STORY

MISSION OVERVIEW

The enduring mission of the Department of Defense (DoD or the Department) is to provide combat-credible military forces needed to deter war and protect the security of the nation.

The Department is committed to ensuring the United States (U.S.) military remains the best prepared and most lethal Joint Force in the world, and that the President and American diplomats negotiate from a position of strength. Should deterrence fail, the U.S. military is prepared to fight and win.

Today, the U.S. faces an increasingly dynamic and unpredictable security environment characterized by a decline in the long-standing free and open international order established following World War II and an erosion of military advantage in key regions. Significant political changes combined with rapid advances in commercial technologies – such as big data analytics, artificial intelligence, robotics, quantum science, autonomy, and additive manufacturing (e.g., 3D printing) – present both important

DOD Uses 3D Printers to Ease COVID-19 Ventilator Shortage

opportunities as well as challenges that will shape the character of future wars. Additionally, non-state actors and rogue regimes remain a concern, enabled by increasingly sophisticated capabilities.

In response to this complex global security environment, the Department continues to carry out its mission objectives as outlined in the January 2018 National Defense Strategy (**NDS**), which focuses on the Department's role in implementing the December 2017 **National Security Strategy**. The NDS is the preeminent guidance document that articulates the central problem the U.S. military seeks to address; identifies core elements of the strategic environment; defines core defense missions; and specifies the capabilities, capacity, posture, and readiness needed to address these challenges. It also articulates an effective strategy to address global security challenges and provide for the common defense. The NDS continues to serve as the key strategic document driving the Department's priorities, investments, and programmatic decisions along three distinct lines of effort:

- Rebuilding military readiness and building a more lethal Joint Force
- Strengthening alliances and attracting new partners; and
- Reforming the Department's business practices for greater performance and affordability

In addition, the Department supplements the implementation of the three NDS lines of effort with a focus on "Taking Care of Our People." This focus recognizes the fact the Department's people are its greatest resource, and their hard work at home and abroad keeps our Nation safe and determines the success of the NDS lines of effort.

National Defense Strategy

ORGANIZATIONAL STRUCTURE

The Department is one of the nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 personnel serving in the National Guard and Reserve forces, and approximately 777,000 civilian employees.

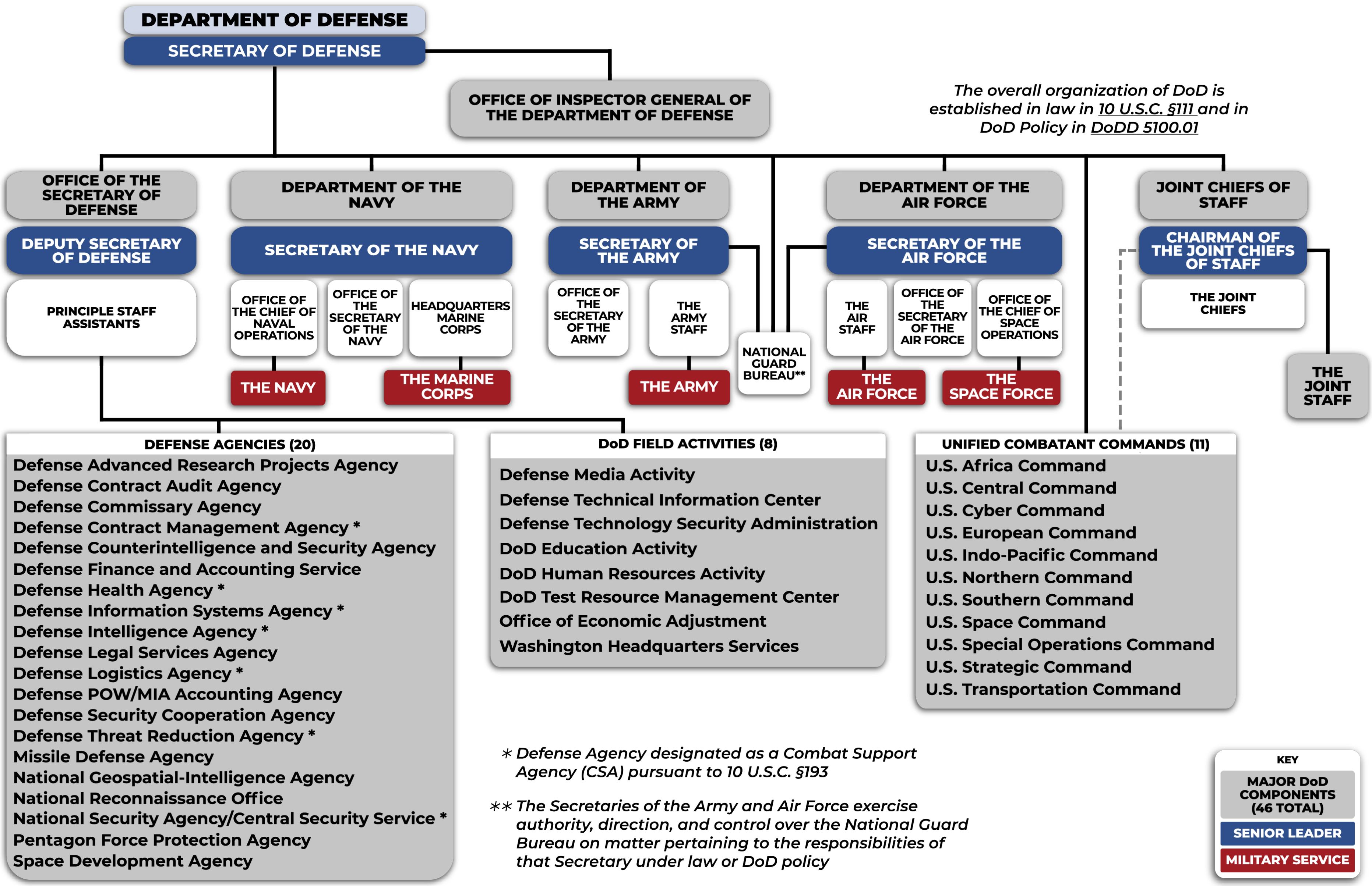
DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyber space. In carrying out the Department's mission to protect national security, Military Service members operate approximately 17,400 aircraft and over 295 Battle Force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with more than 603,000 assets (buildings, structures, and linear structures) located on over 4,600 sites worldwide as of the beginning of fiscal year (FY) 2020. The Department's assets are situated on sites located in all 50 states, the District of Columbia, 7 U.S. territories, and over 40 foreign countries. These sites represent a total of nearly 26.5 million acres that individually vary in size from military training ranges with over 3.3 million acres, such as the **White Sands Missile Range**, to single weather towers or navigational aids isolated on sites of less than one one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond their mission-specific areas (such as runways, training areas, and industrial complexes), DoD installations also contain many types of facilities supporting community operations similar to those found in municipalities or on university campuses (such as public safety, hospital and medical, dining, and religious facilities; community support complexes; housing and dormitories; utility systems; and roadways).

A U.S. Marine leads his squad to the first event during a field exercise, at Camp Villere, Slidell, La. March 11, 2020.
PHOTO CREDIT: Marine Corps photo by Pfc. Colby Bundy

The **Secretary of Defense** is the principal assistant and advisor to the President in all matters relating to the Department, and exercises authority, direction, and control over the Department, in accordance with Title 10, United States Code (U.S.C.), section 113(b) (**10 U.S.C. §113(b)**). The Department comprises the Office of the Secretary of Defense; Joint Chiefs of Staff; Joint Staff; Combatant Commands; Military Departments; Office of Inspector General of DoD; Defense Agencies; DoD Field Activities; and other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense (see Figure 1).

Figure 1: Department of Defense Organizational Structure

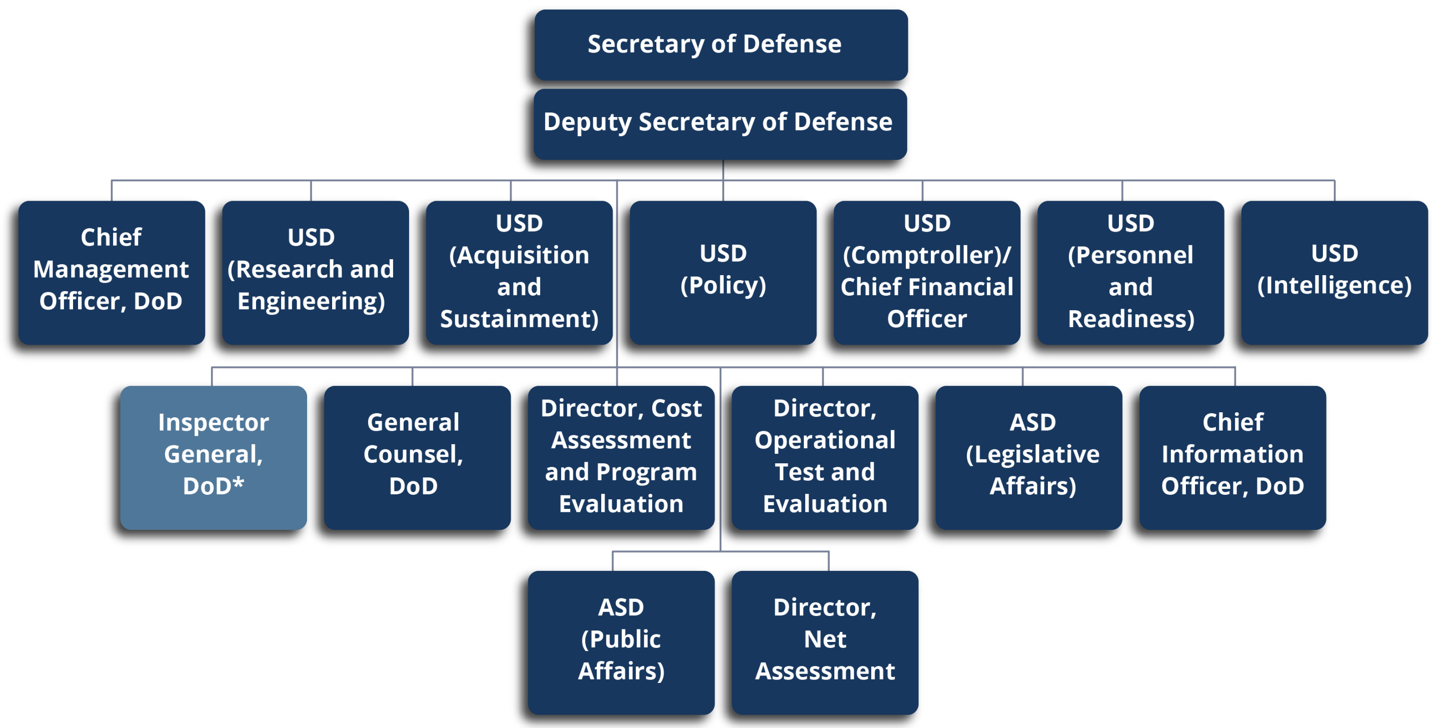


OFFICE OF THE SECRETARY OF DEFENSE

The function of the Office of the Secretary of Defense (**OSD**) is to assist the Secretary of Defense in carrying out his duties and responsibilities as prescribed by law. The OSD comprises the **Deputy Secretary of Defense**, the Chief Management Officer (**CMO**) of the DoD, the Under Secretaries of Defense (USDs), the General Counsel (**GC**) of the DoD, the Assistant Secretaries of Defense (ASDs), the Inspector General (**IG**) of the DoD, and other staff offices within OSD established by law or by the Secretary of Defense.

The OSD Principal Staff Assistants (PSA) are responsible for the oversight and formulation of defense strategy, policy, and resource allocation, as well as for overseeing and managing the Defense Agencies and DoD Field Activities under their purview (see Figure 2).

Figure 2: Office of the Secretary of Defense Principal Staff Assistants



***** *The Inspector General of the DoD serves as a principal advisor to the Secretary of Defense. However, the Inspector General and the Office of Inspector General are organizationally independent from the rest of the Department. Audit organization independence is a key principle under Generally Accepted Government Auditing Standards.***

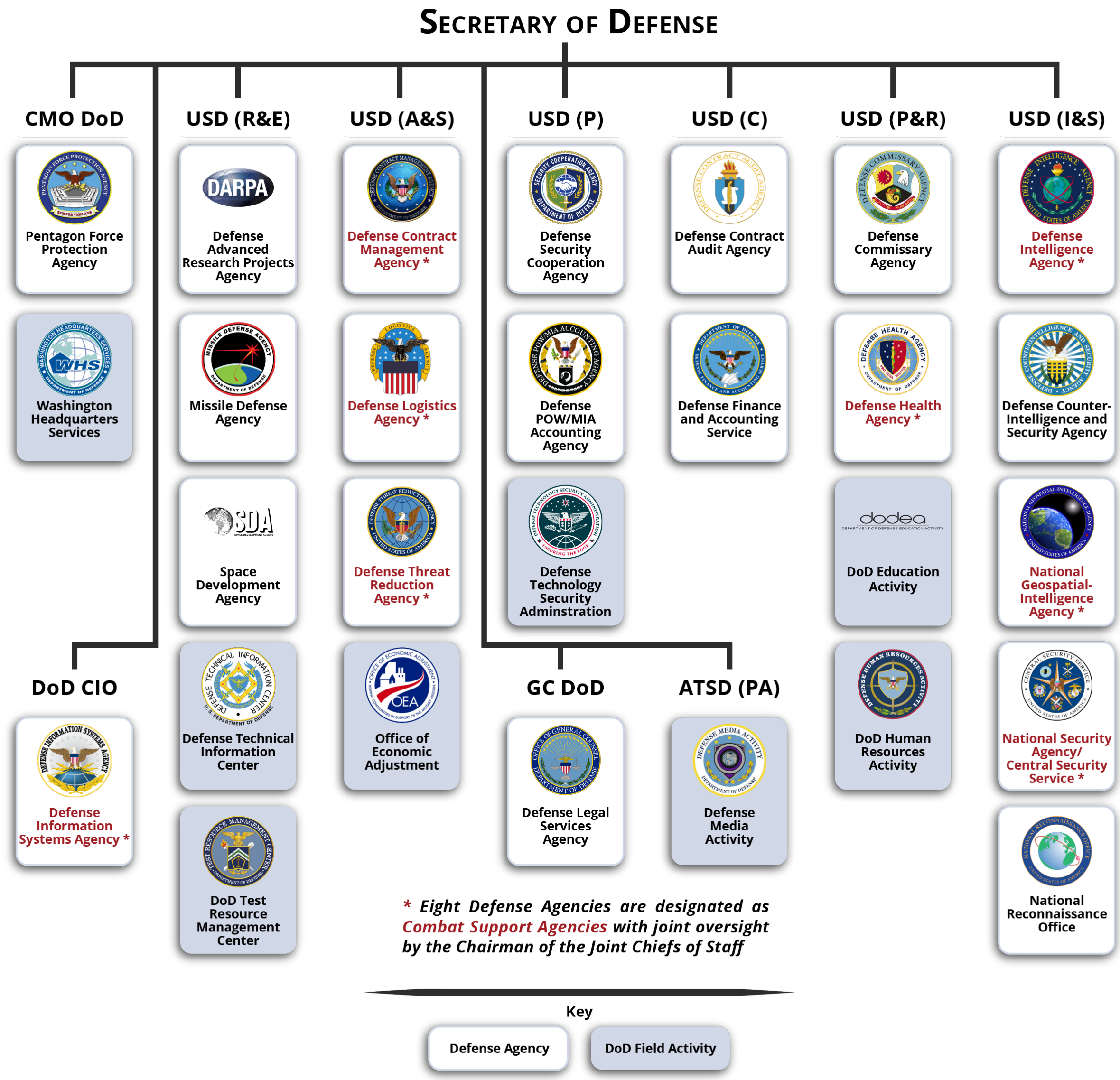
OFFICE OF INSPECTOR GENERAL

The Office of Inspector General of the DoD (**DoD OIG**) is an independent and objective unit within the Department that conducts and supervises audits and investigations relating to the Department's programs and operations. The Inspector General of the DoD serves as the principal advisor to the Secretary of Defense on all audit and criminal investigative matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the Department.

DEFENSE AGENCIES AND DoD FIELD ACTIVITIES

Defense Agencies and DoD Field Activities are established as DoD Components by law, the President, or the Secretary of Defense to provide, on a Department-wide basis, a supply or service activity common to more than one Military Department when it is more effective, economical, or efficient to do so. Although both Defense Agencies and DoD Field Activities fulfill similar functions, the former tend to be larger, normally provide a broader scope of supplies and services, and can be designated as Combat Support Agencies to directly support the Combatant Commands. Each of the 20 Defense Agencies and 8 DoD Field Activities operate under the authority, direction, and control of the Secretary of Defense through an OSD PSA (see Figure 3).

Figure 3: Defense Agencies and DoD Field Activities



THE JOINT CHIEFS OF STAFF AND THE JOINT STAFF

The Joint Chiefs of Staff (**JCS**), supported by the Joint Staff under the direction of the Chairman, constitute the immediate military staff of the Secretary of Defense. The JCS consist of the Chairman (**CJCS**), the Vice Chairman (**VCJCS**), the Chief of Staff of the Army (**CSA**), the Chief of Naval Operations (**CNO**), the Chief of Staff of the Air Force (**CSAF**), the Commandant of the Marine Corps (**CMC**), the Chief of the National Guard Bureau **(CNGB)**, and effective December 20, 2020, the Chief of Space Operations (**CSO**). The JCS function as the military advisors to the President, the National Security Council, and the Secretary of Defense.

COMBATANT COMMANDS

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them (see Figure 4). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands, with the CJCS functioning within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 4: Combatant Commands

COMBATANT COMMANDS (CONTINUED)

Among Combatant Commands, the U.S. Special Operations Command (**USSOCOM**) and the U.S. Cyber Command (**USCYBERCOM**) have additional responsibilities and authorities similar to a number of authorities exercised by the Military Departments, including programming; budgeting; acquisition; training, organizing, equipping, and providing special operations forces and cyberspace operations forces, respectively; and developing strategy, doctrine, tactics, and procedures. However, the USSOCOM and USCYBERCOM are reliant on the Military Services for ensuring combat readiness of the forces assigned to them.

MILITARY DEPARTMENTS

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). Upon the declaration of war, if Congress so directs in the declaration or when the President directs, the **Coast Guard** becomes a service in the Department of the Navy; otherwise, it is part of the **Department of Homeland Security**. The Army, Navy, Marine Corps, Air Force, Space Force, and Coast Guard are referred to as the Military Services. The three Military Departments organize, train, and equip the five Military Services (or six when including the Coast Guard), and provide administrative and logistics support to the Combatant Commands by managing operational costs and execution.

The Military Departments include both Active and Reserve Components. The Active Component comprises units under the authority of the Secretary of Defense, manned by active duty Military Service members. The Reserve Component includes the **National Guard** and the Reserve Forces of each Military Service, with the exception of the Space Force (see Figure 5). The National Guard, which has a unique dual mission with both federal and state responsibilities, can be called into action during local, statewide, or other emergencies (such as storms, drought, and civil disturbances) and in some cases to support federal purposes for training or other duty (non-federalized service) when directed by the governor of each state or territory.

About the Space Force

Department of Defense Defense Space Strategy Summary

MILITARY DEPARTMENTS (CONTINUED)

Figure 5: Reserve Components - Reserve and National Guard

Federal Missions

United States Army Reserve

United States Navy Reserve

United States Air Force Reserve

United States Marine Corps Reserve

United States Coast Guard Reserve

Federal and State Missions

Air National Guard

Army National Guard

When ordered to active duty for national emergencies or other events, units of the National Guard or Reserve Forces of the Military Services are placed under operational control of the appropriate Combatant Commander or provide support to a Military Service. The National Guard and Reserve Forces are recognized as indispensable and integral parts of the nation's defense and are fully part of the applicable Military Department.

Sailors participate in a search and rescue swimmer exercise in the Persian Gulf, February 23, 2020.
PHOTO CREDIT: Navy Mass Communication Specialist Seaman Apprentice Darren Newell

RESOURCES

During FY 2020, the Department continued to faithfully implement the three NDS lines of effort thanks to the ongoing congressional support provided through the **DoD Appropriations Act of 2020**, the **Military Construction, Veterans Affairs, And Related Agencies Appropriations Act of FY 2020**, the **Energy and Water Development and Related Agencies Appropriations Act of FY 2020**, and the **National Defense Authorization Act (NDAA) for FY 2020**.

The provisions of these laws have allowed the Department to reverse declines in readiness and begin to modernize air, land, sea, space, and cyber capabilities. To meet the objectives outlined in the NDS, the Department must continue to make the most of every resource; however, sustained and uninterrupted funding remains key to preparing the U.S. Joint Force to deter future conflict. Through balanced investments, the development of new operating concepts, disciplined execution in the field, and internal reforms, the Department will continue to foster a dominant Joint Force that will protect the security of the nation, increase American influence, preserve access to markets that will improve the American standard of living, and strengthen cohesion among allies and partners.

In FY 2020, the Department received total appropriations of $914.2 billion (see Figure 6).

Figure 6: Trend in DoD Appropriations

$ in billions

DESCRIPTION	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
Discretionary Budget Authority	$ 723.1	$ 687.8	$670.6	$606.0	$ 580.3
Civil Works Projects executed by USACE	6.1	8.2	22.8	5.8	4.6
Department of Treasury Contribution for Military Retirement and Health Benefits	107.0	101.6	96.3	94.3	90.2
Trust Fund Receipts	168.5	172.5	164.2	153.2	141.2
Trust Fund Resources Temporarily not Available	(90.5)	(95.7)	(90.3)	(82.3)	(70.6)
Appropriation (Discretionary and Mandatory) Reported on SBR	**$ 914.2**	**$ 874.4**	**$ 863.6**	**$ 777.0**	**$ 745.7**

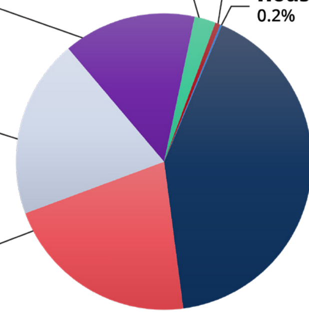
DISCRETIONARY APPROPRIATIONS

The majority of the appropriations the Department receives constitute its Discretionary Budget Authority, which are provided from the annual DoD Appropriations Act and the Military Construction, Veterans Affairs, And Related Agencies Appropriations Act. The Department's FY 2020 Discretionary Budget Authority of $723.1 billion was provided to the Department using seven appropriation categories that describe the intended use and purpose of the funds (see Figure 7):

DISCRETIONARY APPROPRIATIONS (CONTINUED)

Figure 7: FY 2020 Discretionary Budget Authority

APROPRIATION CATEGORY	$ IN BILLIONS	%
Operation and Maintenance	$300.4	41.5%
Military Personnel	$154.8	21.4%
Procurement	$140.8	19.5%
Research, Development, Test, and Evaluation	$104.9	14.5%
Military Construction	$16.7	2.3%
Revolving Funds	$4.1	0.6%
Family Housing	$1.4	0.2%
Total Discretionary Budget Authority	**$723.1**	**100.0%**



APPROPRIATION CATEGORIES

OPERATION AND MAINTENANCE (O&M)

FY 2020 O&M funding increased by $18.6 billion over the FY 2019 amount. Funds in this category included major increases to programs such as the Military Departments' readiness efforts to increase the frequency and quality of individual and collective training, as well as improvements to home station and depot maintenance of weapons systems and platforms.

MILITARY PERSONNEL

FY 2020 Military Personnel funding increased by $5.4 billion over the FY 2019 amount. Funds in this category provide for the **Military Compensation** provided to the Active and Reserve Component members of the Military Services, including various types of pay, benefits, and DoD contributions to retirement savings under the **Blended Retirement System**. The increased funding received is reflective of a 3.1% military base pay raise provided effective January 1, 2020 – the largest pay raise provided to Military Service members in ten years.

PROCUREMENT

FY 2020 Procurement funding decreased by $5.7 billion from the FY 2019 amount. Funds in this category provided for the acquisition of equipment including unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. The funding also allowed for procurement of new and replacement weapons systems, resulting in accelerated transition timelines from legacy platforms and increased lethality and efficiency across the Military Services. For instance, the Navy was provided with the necessary funding for the procurement of three Arleigh Burke-class guided missile destroyers, two Virginia-class fast attack submarines, one frigate, 36 F-35 Joint Strike Fighters, and 24 F/A-18E/F fighters.

REVOLVING FUNDS

FY 2020 Revolving Funds funding increased by $2.2 billion over the FY 2019 amount. Funds in this category provided direct appropriations to the Department's working capital funds, such as the Defense Commissary Agency (**DeCA**), to support various activities including the cost of operating commissaries, headquarters operations, and field operating activities.

RESEARCH, DEVELOPMENT, TEST, AND EVALUATION (RDT&E)

FY 2020 RDT&E funding increased by $9.6 billion over the FY 2019 amount. Funds in this category provided for critical investments in basic and applied technologies, advanced technology development, prototypes, and design and development for major acquisition programs. The funds also provided for upgrades to ensure that weapon systems used today and those developed for the future will provide capabilities to maintain a technological advantage over potential adversaries. Significant increases in next generation aviation and space systems development led the way, especially with such programs as the Long Range Strike Bomber, F-35 Continuous Capability Development and Delivery, Next Generation Air Dominance, modernization of nuclear enterprise systems, and the Next Generation Overhead Infrared Missile Warning satellite development. Additionally, the Department solidified its investment in key technologies (such as artificial intelligence, hypersonics, directed energy, and autonomous/unmanned systems) that are likely to revolutionize the future of warfare.

MILITARY CONSTRUCTION

FY 2020 Military Construction funding increased by $5.4 billion over the FY 2019 amount. Funds in this category provided for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Additionally, these funds provided support for European reassurance and deterrence initiatives as well as $6.2 billion to repair or replace DoD facilities damaged as a result of natural disasters and severe weather events.

FAMILY HOUSING

FY 2020 Family Housing funding decreased by $0.2 billion from the FY 2019 amount. Funds in this category provided for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (**MHPI**), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the U.S. and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units, commonly under a ground lease with the host installation.

DISCRETIONARY APPROPRIATIONS (CONTINUED)

In addition, Congress appropriates funding directly to the United States Army Corps of Engineers (**USACE**) under the annual Energy and Water Development and Related Agencies Appropriations Act. The $6.1 billion received in FY 2020 was used to execute a multitude of civil works projects including supporting commercial navigation; protecting, restoring, and managing the aquatic ecosystem; and reducing storm and flood damage.

MANDATORY APPROPRIATIONS

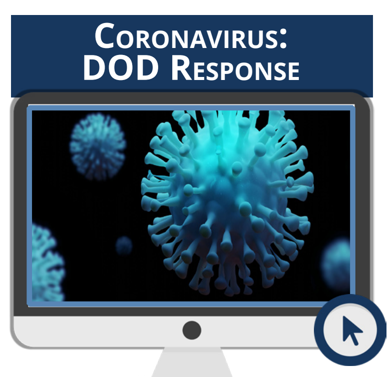
In addition to the discretionary budget authority received from annual appropriation acts, the Department also receives mandatory appropriations stemming from the provisions of previously enacted laws. The amounts the Department receives for these mandatory appropriations are generally stipulated by statutorily defined criteria.

- Treasury Contribution for Military Retirement and Health Benefits – The Department of the Treasury (**Treasury**) is required to contribute payments to the Military Retirement Fund (MRF), under the provisions of **10 U.S.C. §1413a** and **10 U.S.C. §1414**, and the Medicare-Eligible Retiree Health Care Fund (MERHCF), under the provisions of **10 U.S.C. §1116(a)(1)**, to cover (1) a portion of the present value of future benefits payments to be paid to eligible retirees and (2) the fiscal year's amortization of the funds' unfunded liability. The amounts of these contributions are determined by the **DoD Office of the Actuary** based on projection models which rely on data (such as average force strength) and assumptions (such as future inflation rates).
- Trust Fund Receipts - Funds paid into multiple DoD trust funds, primarily MRF and MERHCF, from various sources including the Treasury contributions described above, payments from the Uniformed Services (i.e., the Military Services, **National Oceanic and Atmospheric Administration**, and the **Public Health Service**) to cover the cost of benefits earned in the current year, and interest earned on Treasury investments held by the Trust Funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources*, in the Financial Section for additional information.
- Trust Fund Resources Temporarily not Available – Resources that were appropriated in the current year, but are precluded from obligation during the current year by a provision of law, such a benefit formula or limitation. The Department will obligate these resources in future years to pay the current unfunded liabilities of the corresponding Trust Funds.

COVID-19 RESPONSE FUNDING

In response to societal and economic impacts of Coronavirus Disease 2019 (**COVID-19**), multiple laws were passed by the Congress and signed into law by the President to assist with preventing the spread and mitigating the negative impact of the pandemic on individuals; businesses; and federal, state, local, and tribal government operations. Two of these laws provided supplemental appropriations to the Department totaling $10.7 billion, which are reflected in the DoD FY 2020 total appropriations amount:

- The Families First Coronavirus Response Act (FFCRA) was signed into law on March 18, 2020. The provisions of the FFCRA included $82.0 million in emergency supplemental O&M funding for the Defense Health Program to waive TRICARE participant copayments and cost sharing associated with COVID-19 related testing and medical visits.
- The Coronavirus Aid, Relief, and Economic Security Act (**CARES Act**) was signed into law on March 27, 2020. The provisions of the CARES Act included $10.6 billion in emergency supplemental funding to support the Department's efforts to prevent, prepare for, and respond to the COVID-19 pandemic domestically and internationally, and to fund existing shortfalls in TRICARE-managed care support contracts. These funds were provided across multiple appropriation categories (i.e., Military Personnel, O&M, Procurement, and Revolving Funds) and to multiple DoD Components, including the Military Services, National Guard and Reserves, Defense Health Program, USACE, and the DoD OIG.



COVID-19 RESPONSE FUNDING (CONTINUED)

To facilitate the review and tracking of Component requests for COVID-19 response funds, the Department required Components to categorize their requests using the following cost categories based on the Secretary of Defense COVID-19 response priorities (see Figure 8). In addition to the efforts described by these categories, DoD funding was also used to support the whole-of-nation **Government Response to COVID-19**.

Figure 8: Priority Criteria and Cost Categories for COVID-19 Response Funding Assessments

COST CATEGORY	DESCRIPTION/TYPES OF REQUIREMENTS
Priority 1: Protect our People	
A. Most urgent force protection requirements (in priority order)	
Medical Care	• Increased health care cases for eligible military members, dependents, and retirees • Procurement of medical equipment (e.g., ventilators)
Diagnostics and Medical Research	• Development of vaccines/anti-virals • 24/7 lab operations • Procurement of diagnostic tests and research activities
Medical Countermeasures	• Procurement of vaccines and anti-virals • Public health surveillance
Medical Countermeasures – Medical Personal Protective Equipment (PPE)	• Procurement of PPE for medical personnel and disease response
Pharmaceuticals and Medical Supplies	• Procurement of pharmaceuticals (e.g., albuterol, codeine, saline) and medical supplies (e.g., first aid kits, thermometers)
Non-Medical PPE	• Procurement of PPE for first responders, installations, and ships
Cleaning Contracts and Non-Medical Supplies/ Equipment	• Increased cleaning contracts and biohazard mitigation (e.g., disinfectants, sanitizers, cleaning materials)
B. Longer Term Requirements	
Military Healthcare System Direct Care Capacity	• Expansion of military treatment facilities to ensure maximum capacity of the direct care system • Procurement of expeditionary hospital packages
Priority 2: Safeguard our National Security Capabilities	
A. Continuity of Operations – Highest immediate risk to military readiness	
DoD Operations	• Increased operations and deployment schedules • Costs to support social distancing, quarantine requirements, etc.
Information Technology (IT) Equipment/Support	• Procurement of IT equipment and increased bandwidth to continue operations
Reserve Component Support for the Department	• Deployments of Reserve/Guard personnel for DoD missions (e.g., Training, temporary duty travel costs, non-IT equipment)
Transactions with Nonappropriated Fund Instrumentalities (NAFI)	• Coronavirus-related transactions with revenue-generating NAFIs (e.g., to avoid NAF employee layoffs at Morale, Welfare, and Recreation activities)
B. Defense Industrial Base – High Risk	
Defense Production Act Purchases	• Increase in access to materials necessary for national security and pandemic recovery
Contract Modifications and Cost Overruns	• Contract modifications involving price increases and cost overruns tied directly to the COVID-19 response.

COVID-19 RESPONSE FUNDING (CONTINUED)

Of the COVID-19 response funds received and available for obligation, $8,145.0 million were obligated during FY 2020, $27.9 million expired on September 30, 2020, and $1,032.7 million remained available for future obligation. The remaining $1,450.0 million was provided to Defense Working Capital Fund activities to position them to respond to cash liquidity issues resulting from COVID-19 related impacts. See Note 29, *COVID-19 Activity,* in the Financial Section for additional information.

TAKING CARE OF OUR PEOPLE

The Military (Active, Reserve, and National Guard) and Civilian personnel are the foundation of the Department and constitute its premier asset. As such, they must have the full support of the nation and the Department to ensure that they successfully accomplish the arduous mission of defending the Nation and its interests. During FY 2020, the Department took numerous actions to demonstrate this commitment to support Military Service members and their families:

- Provided a 3.1% military pay raise effective January 1, 2020 – the largest military pay raise in ten years;
- Implemented a memorandum, "**Policy Change Concerning Priorities for Department of Defense Child Care Programs**," to improve availability of DoD-provided child care for military families;
- Directed that military spouse license reciprocity be a factor in basing decisions and issued a report, "**Military Spouse Licensure: State Best Practices and Strategies for Achieving Reciprocity**" to help mitigate the challenges of duty station changes on military spouses;
- Implemented an **MHPI Tenant Bill of Rights** to help ensure that military families in privatized housing receive quality housing and fair treatment;
- Issued a **Per- and Polyfluoroalkyl Substances (PFAS) Task Force Progress Report** summarizing the Department's accomplishments and planned activities for protecting military families and the communities surrounding military installations;
- Took multiple steps to promote equal opportunity, diversity, and inclusion, including establishing a permanent Defense Advisory Committee on Diversity and Inclusion in the Armed Services and issuing two memorandums – "**Actions for Improving Diversity and Inclusion in the Department of Defense**" and "**Immediate Actions to Address Diversity, Inclusion, and Equal Opportunity in the Military Services**;"
- Implemented all recommendations from the April 2019 **Sexual Assault Accountability and Investigation Task Force Report** to improve the accountability process for investigations in which Military Service members are either victims or offenders of sexual assault; and,
- Integrated the seven broad, evidence-informed **Suicide Prevention Strategies** from the Centers for Disease Control and Prevention (**CDC**) into the DoD-wide suicide prevention program evaluation framework. Baseline data, published in the Department's **Annual Suicide Report** for Calendar Year 2019, serves as a starting point to track progress and measure effectiveness of the Department's suicide prevention efforts.

TAKING CARE OF OUR PEOPLE (CONTINUED)

The DoD civilian workforce is also a vital element in maintaining the viability and capabilities of the Joint Force. DoD civilians provide a wide range of services including logistics and supply chain management, financial management, human resource management, cyber defense, information technology management, health care management, and community services.

During FY 2020, the Department took numerous actions to demonstrate its commitment to supporting the civilian workforce:

- Implemented a 3.1% civilian pay raise in accordance with section 748 of the **Consolidated Appropriations Act of 2020**;
- Implemented a memorandum, "**Direct Hire Authority for Certain Personnel of the Department of Defense**," to streamline the recruitment of and reduce the time to hire quality candidates by consolidating several DoD-specific civilian hiring authorities into a single authority and policy;
- Rapidly responded to COVID-19 workforce needs by issuing **DoD civilian human resources guidance** to provide workplace flexibilities (such as flexible work schedules, telework, extending performance management milestones and use of time-off awards, and direct hire authorities) for the civilian workforce as they continue to execute the Department's mission;
- Published the Department's inaugural Agency Workforce Fund Plan, in accordance with OMB **Memorandum M-19-24**, to promote the strategic use of timely award recognition throughout the performance year and strengthen the relationship between performance ratings and performance awards;
- Implemented the **Federal Employee Paid Leave Act**, which provides up to 12 weeks of paid leave to eligible employees in connection with the birth, adoption, or foster placement of a child occurring on or after October 1, 2020; and
- Established an enterprise-wide **Employee Assistance Program** contract, in accordance with **5 U.S.C. §7901**, to provide scalable, streamlined, and cost-effective services to all DoD Components for civilian employees including occupational health services, health and financial counseling, and pre-placement examinations.

Air Force medical providers and support staff assigned to COVID Theater Hospital-1 at Eisenhower Hospital, Rancho Mirage, Calif., August 28, 2020.

PHOTO CREDIT: Army Lt. Col. Charles Calio

PERFORMANCE OVERVIEW

Similar to the manner in which the NDS provides a specific focus on the Department's role in implementing the National Security Strategy, the FY 2018 – FY 2022 National Defense Business Operation Plan (**NDBOP**) provides greater detail on how the Department plans to implement the three NDS lines of effort (which constitute the Department's strategic goals) from a business operations and mission support infrastructure perspective. The NDBOP, which fulfills the requirements of the Government Performance and Results Act of 1993 (**GPRA**), the GPRA Modernization Act of 2010 (**GPRAMA**), and the Office of Management and Budget (OMB) **Circular No. A-11**, contributes to NDS implementation by defining strategic objectives within each NDS line of effort based on input/recommendations from the DoD Components, DoD OIG, Government Accountability Office (**GAO**), and the **President's Management Agenda** (see Figure 9).

Figure 9: DoD Strategic Goals & Objectives

STRATEGIC GOAL	STRATEGIC OBJECTIVE
GOAL 1: Rebuild Military Readiness and Build a More Lethal Joint Force	1.1 - Restore military readiness to build a more lethal force
	1.2 - Increase weapon system mission capability while reducing operating cost
	1.3 - Enhance information technology and cybersecurity defense capabilities
	1.4 - Deliver timely and relevant intelligence to warfighters and decision makers to provide decisive and dominant advantage over adversaries
	1.5 - Implement initiatives to recruit and retain the best total force to bolster capabilities and readiness
	1.6 - Ensure the U.S. technological advantage
	1.7 - Enhance safe and resilient DoD installations
	1.8 - Enhance acquisition and sustainment workforce
GOAL 2: Strengthen Alliances and Attract New Partners	2.1 - Reform the security cooperation enterprise
	2.2 - Promote acquisition and sustainment initiatives with key international partners
GOAL 3: Reform the Department's Business Practices for Greater Performance and Affordability	3.1 - Improve and strengthen business operations through a move to DoD-enterprise or shared services; reduce administrative and regulatory burden
	3.2 - Leverage data as a strategic asset by expanding our data analytics capability and cultivate data-driven solutions
	3.3 - Improve the quality of budgetary and financial information that is most valuable in managing the DoD
	3.4 - Enable innovative acquisition approaches that deliver warfighting capability at the speed of relevance
	3.5 - Build a safe, secure, and resilient Defense Industrial Base (commercial and organic)

This section provides an overview of the Department's operational performance through Quarter 3 (Q3), FY 2020, based on the **FY 2021 Annual Performance Plan (APP),** which covers the FY 2020 budget execution year. The APP further builds on the NDBOP by defining specific performance goals and measures along with targets and/or milestones for use in guiding the Department's business operations (see Figure 10). Additional detailed narrative information and performance results that support this overview are available in the FY 2020 **Third Quarter Performance Results Summary**. Complete FY 2020 performance results through fiscal year-end will be published in the **Annual Performance Report** in February 2021, which will be available on the Office of the Chief Management Officer's (OCMO) website at **https://cmo.defense.gov**.

Figure 10: DoD Strategic Performance Framework

ENTERPRISE PERFORMANCE MANAGEMENT

The Department is a performance-based organization committed to using performance data and results to drive decision-making and improve enterprise business operations. The CMO, as the Performance Improvement Officer, is responsible for performance planning, measurement, and analysis as well as ensuring that business transformation policies and programs are designed to improve performance efficiency and effectiveness. Leaders at all levels throughout the Department are responsible for meeting the performance goals and measures set out in the APP that relate to their functional areas, some of which are used to inform critical elements of senior executive performance plans. To ensure the quality of the performance data provided for performance management and assessment, the CMO requires written attestation from goal owners attesting that (1) all performance information is complete, accurate, and reliable, and (2) verification and validation procedures were performed on the data, the procedures were documented, and supporting documentation is available upon request. Using the APP goals and measures in this manner, and holding goal owners accountable for the quality of their performance data, helps to ensure that DoD leaders are focusing on achieving measurable outcomes that align with the mission strategy laid out in the NDS and NDBOP (see Figure 11).

ENTERPRISE PERFORMANCE MANAGEMENT (CONTINUED)

Figure 11: DoD Performance Management and Evaluation Process

In addition to the APP performance goals and measures, the Department employs hundreds of other performance measures to help assess progress in key areas such as reform, acquisition, military readiness, audit remediation, and business process improvement. Together, these datasets help DoD management monitor the entire breadth and scope of the Department's worldwide responsibilities and guide the effective and efficient use of resources. This information supports multiple decision-making and accountability efforts such as provision to the Deputy Secretary and Secretary of Defense to inform management decisions, inclusion in budget exhibits to justify funding requests, and submission to the Congress through a wide range of reports to facilitate proper legislative oversight.

Given the importance of performance information, the Department continually strives to identify and implement improvements to the DoD performance management process. One such initiative being led by the OCMO is the ongoing effort to define and implement consistent performance metrics for similar functions across the Department, beginning with key administrative functions such as human resources, acquisition, financial management, information technology, and property management. These shared performance metrics are being developed using a "balanced scorecard" approach (i.e., measuring performance from the perspectives of financial, customer/stakeholder, internal business processes, and organizational capacity) to help ensure that desired function outcomes are achieved while encouraging the use of innovative solutions to improve performance. Once developed, these performance metrics will be benchmarked against Departmental targets as well as performance results within the Federal Government and industry to foster accountability and improvement.

A soldier participates in German Armed Forces Proficiency Badge events in an undisclosed location in the Central Command area of responsibility, September 5, 2020.

Photo credit: Army Sgt. Trevor Cullen

STRATEGIC GOAL 1:

REBUILD MILITARY READINESS AND BUILD A MORE LETHAL JOINT FORCE

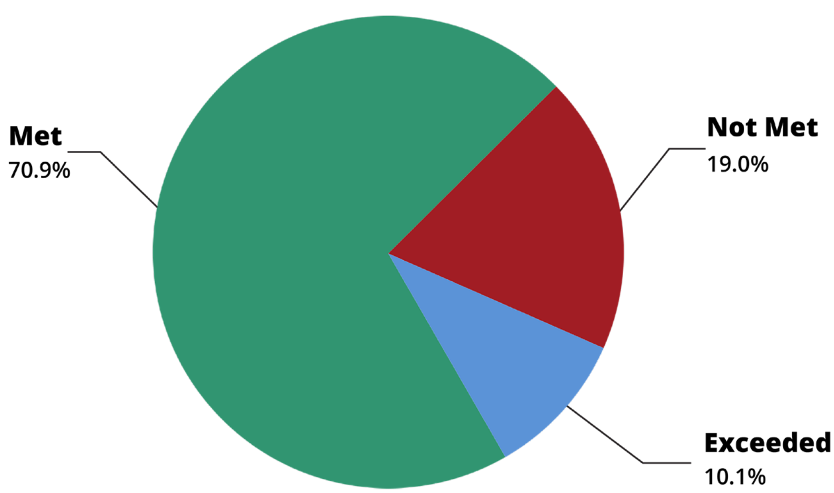
The surest way to prevent war is to be prepared to win. This requires a competitive approach to Joint Force development and a consistent, multiyear investment to restore warfighting readiness. The nation must field a capable and lethal Joint Force that possesses decisive advantages for any likely conflict, while remaining proficient across the entire spectrum of conflict. To support this goal, the Department must gain and maintain information superiority; modernize key capabilities, such as space and cyberspace warfighting domains; and evolve innovative operational concepts for the ways the Joint Force is organized and deployed.

Marines hike at Fort Greely, Alaska, February 19, 2020, to prepare for Arctic Edge, an exercise that provides training in extreme cold-weather conditions.
PHOTO CREDIT: Marine Corps Lance Cpl. Jose Gonzalez

Central to the achievement of this goal are the people of the DoD workforce. Recruiting, developing, and retaining a high-quality military and civilian workforce is essential for the Department's warfighting and deterrent success. Cultivating a lethal, agile Joint Force requires more than new technologies and posture changes—it depends on the ability of Military Service members and the DoD civilian workforce to integrate new capabilities, adapt warfighting approaches, and improve business practices in order to achieve mission success. The creativity and talent of the combined DoD workforce is the Department's greatest enduring strength, and one that is not taken for granted.

The Department measured 79 of the 103 Strategic Goal 1 performance measures as of Q3, FY 2020, with the remainder being only measured on a semi-annual or annual basis (see Figure 12). Updated performance results for all performance targets through fiscal year-end will be available in the Annual Performance Report.

Figure 12: Strategic Goal 1 Performance Result Summary



ILLUSTRATIVE PERFORMANCE RESULTS

A limited number of examples of the Department's performance results are summarized below. See the FY 2020 **Third Quarter Performance Results Summary** companion document for a full listing of the Department's Strategic Goal 1 performance measures, targets, and results; responsible Departmental performance goal leaders; prior year results; and additional narrative information.

PERFORMANCE GOAL 1.2.1: IMPROVE F-35 EXECUTION

Improving execution of the F-35 Lightning II **Joint Strike Fighter** program has been a major goal for the Department in addressing DoD weapon system mission capability. The program is the Department's focal point for defining affordable, "next-generation" strike aircraft weapon systems and is the Department's largest joint and international acquisition program in DoD history. The F-35 is key to strengthening international security and alliances while building defense capacity and enhanced interoperability with U.S. allies. Along with the Navy, Air Force, and Marine Corps, seven allied nations participate in the program as partners, four nations are customers under the Foreign Military Sales (**FMS**) program, and several additional FMS customers have shown strong interest.

The Department met its Q3, FY 2020 performance target for updating and issuing the F-35 Lifecycle Sustainment Plan and reported progress towards achieving sustainment affordability targets in accordance with the October 2018 Acquisition Decision Memorandum. For example, the Department is working to replace the F-35 Autonomic Logistics Information System with the new Operational Data Integrated Network, which is anticipated to improve fleet availability and significantly reduce related contractor support costs. The next step in the Life Cycle Sustainment Plan process is to improve the linkage between the performance metrics currently being tracked (such as the percentage of time that an aircraft can perform at least one or all of its assigned missions) and cost metrics (such as cost per flight hour and cost per aircraft per year) in order to drive reductions in sustainment cost to meet the Military Services' affordability constraints. In support of this effort, the F-35 Joint Program Office is working together with the Office of the Assistant Secretary of Defense for Sustainment (**ASD(S)**), the Office of Cost Assessment and Program Evaluation (**CAPE**), and the GAO (which is currently performing an audit focused on F-35 sustainment cost issues) in order to improve the Department's understanding of sustainment cost issues across the F-35 enterprise.

In March 2020, the Department awarded a new $4.7 billion contract for the acquisition of a total of 78 F-35s, which are expected to be delivered by 2023 to the Navy, Air Force, and Marine Corps. When combined with separate contracts for engine procurement, the agreement achieved an overall per aircraft price reduction from previous contracts of 12.8% for the F-35A variant, 12.3% for the F-35B variant, and 13.2% for the F-35C variant.

Two F-35A Lightning II aircraft fly over the Alaska Canada Highway en route to their new home at the 354th Fighter Wing, April 21, 2020. The F-35 represents a new model of international cooperation, ensuring U.S. and Coalition partner security well into the 21st Century.

PHOTO CREDIT: Air National Guard Tech. Sgt. Adam Keele

PERFORMANCE GOAL 1.8.1: ENHANCE ACQUISITION AND SUSTAINMENT WORKFORCE

Maintaining a highly capable and technically proficient workforce is of utmost importance to the Department's efforts to improve Joint Force readiness and increase lethality. To support the training of the DoD acquisition workforce, the Defense Acquisition University (**DAU**) offers eight job-specific credential programs in seven topic areas to help acquisition personnel deepen and grow their skillsets: Introduction to Risk, Issue, and Opportunity Management; Services Acquisition for Acquisition Professionals; Services Acquisition for Non-Acquisition Professionals; Agile; Foundational Intellectual Property; Program Protection; Digital Engineering; and Data Analytics. The Department tracks and assesses the number of students enrolled in and completing these credential programs as measures of performance. As of June 30, 2020, 5,891 professionals had enrolled in one of DAU's credential programs, exceeding the annual goal for FY 2020 of 2,000 enrollments by nearly 295%. Additionally, 563 members of the workforce had completed one of DAU's available credentials, surpassing the annual goal for FY 2020 of 260 completions by more than 215%. Based on these results, the Department plans to revise the FY 2021 and FY 2022 goals for the DAU credentials program to better reflect the proven demand for these assets, and is actively developing strategies to increase completion rates.

Similar to many other training and education programs around the world, the delivery of DAU courses was disrupted by the COVID-19 pandemic during FY 2020. However, DAU was able to react swiftly and move 80% of its resident course offerings online, thereby enabling more than 10,000 workforce members to continue training without interruption. DAU also quickly developed a "**Coronavirus Acquisition Guidance and Resources**" page to provide acquisition professionals with a curated list of policy guidance, statutes, and tools issued across the Federal Government and the Department related to acquisition in the pandemic environment. Since its launch in April 2020, the page has been visited an average of 1,500 times per month. Each of these visit represents a connection between an acquisition professional and a critical piece of information required to perform their duties in support of the warfighter.

Soldiers fire the Army's new M1A2 SEPv3 tank at Fort Hood, Texas, August 18, 2020.

PHOTO CREDIT: Army Sgt. Calab Franklin

STRATEGIC GOAL 2:
STRENGTHEN OUR ALLIANCES & ATTRACT NEW PARTNERS

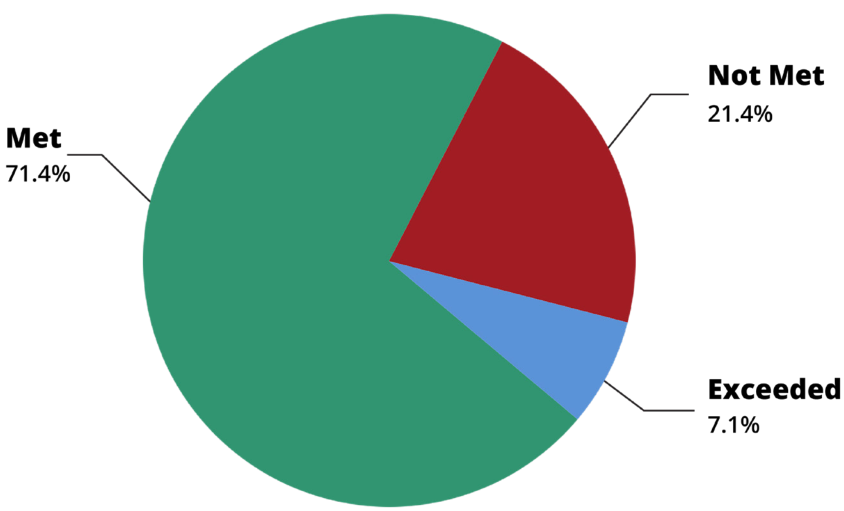
Mutually beneficial alliances and partnerships are crucial to the Department's strategy of providing a durable, asymmetric strategic advantage that no competitor or rival can match. By working together with allies and partners, the Department amasses the greatest possible strength for the long-term advancement of American interests and maintaining favorable balances of power that deter aggression and support the stability of economic growth. Allies and partners provide a wealth of benefits to the accomplishment of the DoD mission such as providing access to critical regions; providing unique perspectives, regional relationships, and information; and supporting a widespread basing and logistics system that underpins the Department's global reach.

Mississippi Army National Guardsmen unload supplies at Camp Shelby Joint Force Training Center near Hattiesburg, Miss., in preparation to respond to Hurricane Sally, September 15, 2020.
PHOTO CREDIT: Army Spc. Victoria Miller

The Department of Defense is part of a broad interagency team working with the **Department of State** and other stakeholders to build international cooperation through bilateral, regional, and broader relationships toward mutually beneficial strategic and operational outcomes. The Department achieves a robust network of allies and partners through a wide range of programs and activities designed to improve security, interoperability and preparedness, and increased capability and capacity. These programs include provision of defense articles and services, institutional capacity building, exercises and training events, military-to-military exchanges, professional military education at U.S. military schools, and collaborating to develop key technological capabilities.

The Department measured 14 of the 15 Strategic Goal 2 performance measures as of Q3, FY 2020, with the remainder being only measured on a semi-annual or annual basis (see Figure 13). Updated performance results for all performance targets through fiscal year-end will be available in the Annual Performance Report.

Figure 13: Strategic Goal 2 Performance Result Summary



ILLUSTRATIVE PERFORMANCE RESULTS

A limited number of examples of the Department's performance results are summarized below. See the FY 2020 **Third Quarter Performance Results Summary** companion document for a full listing of the Department's Strategic Goal 2 performance measures, targets, and results; responsible Departmental performance goal leaders; prior year results; and additional narrative information.

PERFORMANCE GOAL 2.1.1: SYNCHRONIZE U.S. PLANNING AND RESOURCING EFFORTS TO DEVELOP FULL-SPECTRUM CAPABILITIES FOR PARTNER NATIONS

The Defense Security Cooperation Agency (**DSCA**) leads the broader U.S. security cooperation enterprise through the administration of security cooperation programs that support U.S. policy interests and objectives identified by the White House, Department of State, and Department of Defense. As part of carrying out this mission, DSCA continues to support the Department's role in national security and NDS implementation by assessing and reforming DoD security cooperation organizations, structures, workforce, and processes. Working with other key DoD stakeholders, DSCA developed and is currently implementing a four-level "Strategy to Capability" approach that will focus the Department's attention on developing partner capabilities that best support partner security roles tied to NDS objectives. For each security cooperation partner country, this approach will enable the Department to establish a coordinated current-state DoD perspective on partner roles, capabilities, activities, and desired outcomes (Level 1 Strategic Framework); prioritize and synchronize planning and resourcing efforts (Level 2 Five Year Plan); monitor **Foreign Military Sales** case implementation and execution (Level 3 System Program Management Plan); and coordinate risk identification, mitigation, and resolution efforts (Level 4 Interagency Targeted Action Plan). Each level results in a product that synthesizes strategic outcomes with varying degrees of program activity to inform program planning, development, and execution.

In FY 2020, the Department focused on measuring progress of the development and implementation of Level 1 Strategic Frameworks as the best indicator to measure progress. As of Q3, FY 2020, DSCA completed implementation of Level 1 Strategic Frameworks for 34 security cooperation partner countries, compared to a Q3, FY 2020 target of 60. Progress in this performance area was negatively impacted during FY 2020 by the COVID-19 pandemic, as mandatory quarantines and the government-wide policy to make maximum use of telework to the extent possible limited personnel access to DoD secure networks and classified information necessary to develop, review, and validate the Level 1 Strategic Frameworks. The Department is continuing efforts to make progress on the Level 1 Strategic Frameworks not requiring this access and developing alternative strategies for securing personnel access to required resources while prioritizing personnel health and safety.

Air Force Tech Sgt. Ashley Yavorsky and Airman 1st Class Leah Weingartner test the magnetic particle unit functionality at the Pittsburgh International Airport Air Reserve Station, Pa., January 28, 2020.

PHOTO CREDIT: Joshua Seybert, Air Force

PERFORMANCE GOAL 2.1.2: DEVELOP A HIGHLY QUALIFIED SECURITY COOPERATION WORKFORCE

In accordance with a requirement contained in the **NDAA for FY 2017** and codified at **10 U.S.C. §384**, DSCA leads the Department's effort to oversee the development and management of a professional security cooperation (SC) workforce. The Department has achieved significant progress towards the completion of this effort since the NDAA was enacted: in FY 2017 and FY 2018, DSCA gathered manpower and personnel data from the DoD Components in order to identify and analyze the size and development needs of the SC workforce, and in FY 2019 DSCA established the **Defense Security Cooperation University** and began offering an initial group of certification program courses to the SC workforce.

In FY 2020, DSCA formally began implementing the Defense Security Cooperation Workforce Certification Program to provide the SC workforce with the training and experience necessary to complete their assigned responsibilities and to formalize a continuous learning process to ensure that they remain up to date on SC developments. The program currently consists of five academic areas of concentration – SC planning, oversight, and execution management; SC case lifecycle management; SC office operations and management; SC execution support management; and SC acquisition management – and four certification levels – basic, intermediate, advanced, and expert. The first year of the program implementation (January 1, 2020 – December 31, 2020) will be a transition period to provide DoD Components and the SC workforce with an opportunity to familiarize themselves with the Program before mandatory participation and completion milestones go into effect in calendar year 2021. As of Q3, FY 2020, DSCA issued a memorandum, "**Implementation of the Department of Defense Security Cooperation Workforce Certification Program**," and began drafting a DoD Instruction to establish the policy for management and execution of the SC Workforce Certification Program. In doing so, DSCA met the Q3 goal of completing 40% of the effort to establish guidance to create a trained and certified workforce, and is on track to meet the Q4 goal of 60% completion. Additionally, DSCA developed, tested, and fielded 67% of the SC Workforce Certification Program courses, exceeding both the Q3, FY 2020 goal of 55% and the Q4, FY 2020 goal of 60%.

A Navy patrol boat transfers supplies to the fast-attack submarine USS Texas in the Gulf of Tadjoura, November 5, 2019.

PHOTO CREDIT: Navy Mass Communication Specialist Petty Officer 1st Class Kenji Shiroma

STRATEGIC GOAL 3:

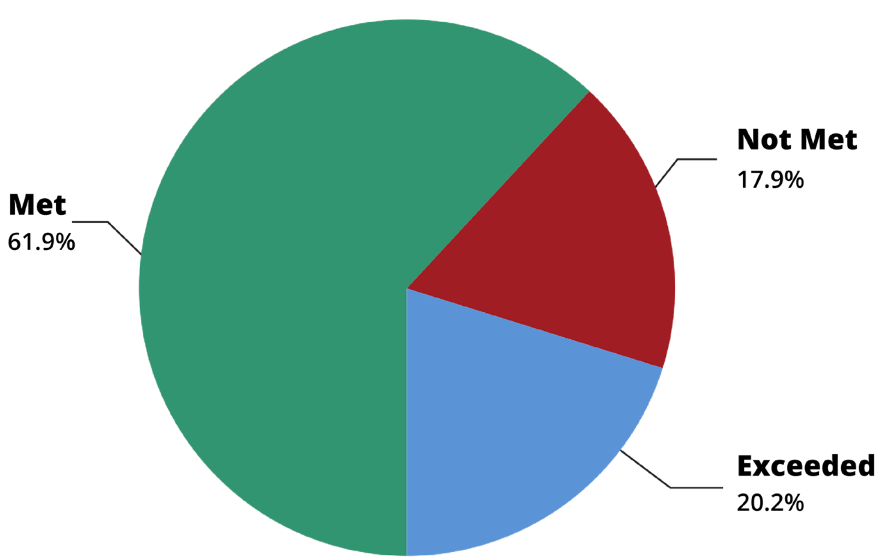
REFORM THE DEPARTMENT'S BUSINESS PRACTICES FOR GREATER PERFORMANCE AND AFFORDABILITY

Over time, the lack of standard business processes has allowed the Department's decision-making to become overly cumbersome, costly, and risk-averse in an attempt to ensure quality of performance. The Department recognizes that in order to face the challenges of its complex and dynamic operating environment, reforms must be implemented to increase the speed with which decisions, policies, capabilities, and information are provided in support of the warfighter. As such, the Department must transition to a management system that allows leadership to harness opportunities for improved efficiency, thereby assuming greater risk at the headquarters level in order to reduce operational risk to the warfighter. This management system must also be coupled with a transition to a culture of performance where results and accountability matter. Together, these changes will help support the Department's goals of supporting Joint Force lethality and fulfilling the responsibility of gaining full value from every taxpayer dollar spent on defense.

In line with this vision, the Department continues to employ the use of cross-functional teams to examine business operations to identify and implement reforms which improve operational effectiveness and maximize efficiency so that additional time, money, and manpower that can be reallocated to higher priorities (such as enhancing lethality, readiness, and modernization). These teams receive oversight and guidance from the Reform Management Group—a senior leadership board consisting of numerous Principal Staff Assistants and the Military Department CMOs—and use performance data to propose and evaluate reform recommendations. DoD Components use the Defense Enterprise Reform Management Framework Portal to report execution, progress, and post-implementation achievement of their reform initiatives, and the OCMO and Office of the Under Secretary of Defense (Comptroller) (**OUSD(C)**) review and validate all reform savings prior to their inclusion in this report, the Annual Performance Report, and the annual **Defense Budget Overview**.

The Department measured 84 of the 106 Strategic Goal 3 performance measures as of Q3, FY 2020, with the remainder being only measured on a semi-annual or annual basis (see Figure 14). Updated performance results for all performance targets through fiscal year-end will be available in the Annual Performance Report.

Figure 14: Strategic Goal 3 Performance Result Summary



ILLUSTRATIVE PERFORMANCE RESULTS

A limited number of examples of the Department's performance results are summarized below. See the FY 2020 **Third Quarter Performance Results Summary** companion document for a full listing of the Department's Strategic Goal 3 performance measures, targets, and results; responsible Departmental performance goal leaders; prior year results; and additional narrative information.

AGENCY PRIORITY GOAL 3.1.1: BY SEPTEMBER 30, 2021, CREATE A LONG-LASTING CULTURE OF INNOVATION, EMPOWERMENT, AND IMPROVEMENT TO REDUCE THE COST OF DOING BUSINESS THROUGHOUT THE DEPARTMENT AND ACHIEVE $16.4 BILLION IN REFORM SAVINGS (FY 2020 - $7.7 BILLION AND FY 2021 - $8.7 BILLION)

In FY 2019, the Department set a goal of recognizing reforms savings of $46.0 billion over the five-year period covered by the FY 2019 - FY 2024 Future Years Defense Program (FYDP), a document which projects the forces, resources, and programs the Department will need to support mission achievement. The Department exceeded its FY 2019 reform savings goal of $5.0 billion in FY 2019 and is projected to meet its FY 2020 reform savings goal of $7.7 billion in FY 2020, with a cumulative total of $14.2 billion in reform savings projected over FY 2019 and FY 2020 (see Figure 15).

Soldiers conduct a joint forcible entry operation as part of an exercise at Donnelly Training Area, Alaska, September 14, 2020.
PHOTO CREDIT: Army Pfc. Colton Eller

Figure 15: FY 2019 – FY 2024 Projected Reform Savings

$ in millions

REFORM TYPE	FY 2019 ACTUAL SAVINGS	FY 2020 ACTUAL SAVINGS	FY 2021 PROJECTED SAVINGS	FY 2022-2024 PROJECTED SAVINGS
Better Alignment of Resources	$5,885.6	$2,144.2	$8,219.4	$20,007.7
Business Process Improvements	521.6	2,309.6	3,081.7	5,991.8
Business System Improvements	(23.0)	250.5	320.1	954.4
Divestments	-	2,949.3	4,978.3	23,417.0
Policy Reform	133.8	177.9	625.5	2,228.3
Weapon System Acquisition Process	-	(100.6)	856.3	4,036.2
Total	**$6,518.0**	**$7,730.9**	**$18,081.3**	**$56,635.4**

Below are some examples of the Department's FY 2020 efforts to implement business reforms:

- The Department has continued efforts to configure the Defense Civilian Human Resource Management System (**DCHRMS**), a cloud-based human resources personnel system that is integrating six different databases into one. Through Q3, FY 2020, thousands of business processes and rules were reengineered, reducing system roles by 30%, decreasing the number of data fields by 45%, and reducing the number of interfaces down to 36 from 42 in FY 2019.
- The Department continues to focus on validation of contract requirements, redundancy, and effectiveness as a major reform area. Through Q3, FY 2020, financial savings of $441.0 million were confirmed through programmed budgeted amounts in accordance with Service Requirements Review Board and Senior Review Panel validations.

AGENCY PRIORITY GOAL 3.1.7: REDUCE REGULATORY BURDEN BY ELIMINATING UNNECESSARY FEDERAL RULES THROUGH CONTINUED IMPLEMENTATION OF EXECUTIVE ORDER 13771

A key Administration priority is to reform regulatory requirements that negatively impact the American economy. In accordance with **Executive Order 13777** and OMB **Memorandum M-17-23**, the Department established a goal to review all 716 DoD codified regulations in order to evaluate regulations for consolidation and to eliminate unnecessary, outdated, or ineffective regulations by 25%. This effort will help reduce burden and costs to the public; identify priority regulations that align with the Secretary of Defense's priorities; and improve the business process of issuing regulations.

The DoD Regulatory Reform Task Force review, which was completed by Q1, FY 2019, recommended 248 (35%) regulations for repeal, 49 (7%) for replacement, 80 (11%) for modification, and 339 (47%) for retention. The Department has established a goal of implementing at least 50 Task Force recommendations each fiscal year. Through Q3, FY 2020, the Department implemented 30 recommendations that resulted in repealing 18 regulations and modifying 12. While it is expected that the Department will meet its regulatory reform goals for FY 2020, the COVID-19 pandemic presented several challenges that may impact DoD regulatory performance. For instance, the OMB Office of Information and Regulatory Affairs (**OIRA**) prioritized the review and clearance of COVID-19 regulatory actions and delayed review and clearance of non-COVID-19 regulations, thereby delaying the approval of DoD regulations intended to implement reforms. Similarly, the Office of the Federal Register (**OFR**) prioritized the publication of COVID-19 regulatory actions, which created a backlog for the publication of non-COVID-19 regulations across the executive branch agencies.

FORWARD-LOOKING INFORMATION

Over recent fiscal years, the Department has made great strides to improve its current readiness, while simultaneously making significant investments in future capabilities and force modernization.

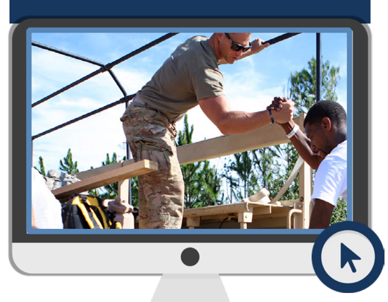
Given the breadth and complexity of its mission, the Department faces myriad emerging risks and challenges. Nevertheless, the Department is committed to ensuring a clear-eyed appraisal of these risks and in identifying every opportunity to optimize operational performance. These risks include:

Natural and Man-Made Disasters May Disrupt DoD Operations, Pose Danger to DoD Property and Personnel, and Necessitate Additional Funding to Support Response and Recovery Efforts.

The significant economic and societal effects experienced as a result of the COVID-19 pandemic underscores the importance of being prepared for the unexpected. Though the Department has been largely successful at adapting as necessary to continue operations while safeguarding the health and well-being of DoD personnel, there remain numerous challenges to be addressed including continuing distributed operations and social distancing. These and other challenges place increased stress on various enterprise and organizational processes, especially those requiring access to secure resources and human capital management functions such as training. The Department's response to the COVID-19 pandemic is being continuously monitored and reviewed to collect and distribute best practices and lessons learned, as well as to develop a full understanding of all the effects the pandemic has on DoD operations. These insights will be used to update contingency and operational plans.

While the COVID-19 pandemic may continue to be a pressing challenge during the foreseeable future, there also continues to be the risk of other disasters, both natural and man-made, that require planning and preparation. As DoD installations and personnel are located around the globe, the Department is often affected by a variety of disasters. The effects of these events may manifest in different ways, such as financial costs to preventatively relocate assets or to conduct post-disaster repairs, or opportunity costs as DoD personnel respond to emergent disasters instead of completing other tasks. Regardless of the costs, supporting American disaster recovery efforts and those of our allies and partners is a key component of the Department's mission to protect the American people and vital national interests. To mitigate the operational and financial risks presented by disasters, the Department maintains robust continuity of operations plans to identify and mitigate any single-point failures by ensuring the availability of critical assets, capabilities, and infrastructure. For example, one focus area is energy resilience, where the Department seeks to ensure that DoD facilities have redundant capabilities.

Helping Hands



THE COMPLEX GLOBAL SECURITY ENVIRONMENT AND GEOPOLITICAL THREATS NECESSITATE SUSTAINED VIGILANCE, AS WELL AS DELIBERATE PRIORITIZATION OF RESOURCES AND ATTENTION.

The United States is currently confronted with a range of increasingly complex security challenges and threats to its vital national interests. This is characterized by the reemergence of long-term strategic competition by revisionist powers, regional destabilization efforts of rogue nations, and threats against the homeland by non-state actors. For instance:

- China continues far reaching efforts to expand national power, "return" to leadership on the world stage, revise the international order, and make gains in what it sees as a major international competition with other states, including, and in particular, the United States;
- Russia is intent on upending international norms through its aggressive foreign policy, including violating the borders of its neighbors in pursuit of regional dominance, as well as its broken treaty obligations, nuclear intimidation, cyber operations, and coercion and hybrid tactics;
- Both China and Russia are pursuing aggressive conventional and nuclear modernization programs, and both seek to exert undue influence over other nations' economic, diplomatic, and security decisions;
- The North Korean regime continues to expand its nuclear arsenal and develop advanced ballistic missile technologies, threatening both regional states and the U.S. homeland;
- Iran is a leading source of instability in the greater Middle East, and seeks to revise the regional security architecture through direct facilitation of terrorist and militant proxy groups and other unconventional activities; and,
- Violent extremist organizations, fueled by deep-rooted socioeconomic and ideological resentments, present a lethal, active, and enduring terrorist threat to U.S. vital national interests.

The recent COVID-19 pandemic has also deepened mistrust of international systems and institutions that previously were effective forums for American leadership to manage disputes and resolve crises. These challenges, while manageable individually, collectively strain the resources and attention of the United States, and will continue to do so for the foreseeable future. The Department is focused on correctly balancing risks to meet the demands of today while preparing for those of tomorrow. This includes addressing the challenges that emerge from a combination of recovering readiness following two decades of counterterrorism operations, continued high operational demand, and the requirement to modernize the American military for a future, high-end conflict. The NDS remains the Department's guiding beacon to meeting the long term and enduring nature of these challenges.

Sailors and volunteers prepare care packages for sailors in restriction of movement status at Naval Air Facility Atsugi, Japan, July 20, 2020.

PHOTO CREDIT: Navy Mass Communications Specialist Petty Officer 3rd Class Jacob Smith

Budget Impasses and Continuing Resolutions May Negatively Impact DoD Planning and Readiness.

The Department relies on predictable and timely appropriations in order to conduct long-term planning for continued recovery of military readiness and other key capabilities. The absence of fully enacted appropriations at the beginning of a fiscal year prevent the Department from implementing new operational improvement initiatives, restricts the operations of certain civilian and Reserve Component personnel, and affects the availability of funding for critical weapon systems acquisition and personnel compensation. To mitigate this risk, the Department closely monitors the appropriation process throughout the year and develops contingency plans to ensure the continuation of essential operations in the absence of available appropriations.

The Disparate Systems That Compose the DoD Information Network May Be Vulnerable to Unauthorized Access by Internal and External Parties.

Over the past decade, DoD core functions have become increasingly reliant on the internet and other networks at various classification levels. Many of these functions (such as financial management, logistics, and personnel services) are split across multiple systems owned by various DoD Components. This wide and disparate systems infrastructure complicates the efficient sharing of information (such as requests for removal or modification of user access); increases the number of attack vectors adversaries could use to gain unauthorized access to sensitive or classified data; and raises the difficulty of implementing consistent, effective cybersecurity protocols. The Department is implementing a wide range of initiatives to mitigate these risks, including consolidating networks through the deployment of Joint Regional Security Stacks and implementing the Identity, Credential, and Access Management (**ICAM**) solution to facilitate provisioning, review, modification and removal of user access for improved access control and segregation of duties across DoD business systems from a central repository. Additionally, the Department maintains the **DoD Cybersecurity Policy Chart** to assist cybersecurity professionals in remaining cognizant of the breadth of applicable policies.

Air Force Senior Airman Matthew Jolikko takes temperatures of students before they go into Rivers Elementary School at Altus Air Force Base, Okla., August 17, 2020.

PHOTO CREDIT: Air Force Senior Airman Breanna Klemm

The viability and resiliency of the Defense Industrial Base and supply chain may adversely impact acquisition and sustainment.

As the Department seeks innovative solutions to priority defense challenges, a risk exists surrounding the viability of the Defense Industrial Base (**DIB**) to support the implementation of the NDS. Many suppliers lack the capability or capacity to expand production, have insufficient protections to safeguard sensitive information, and are often plagued by sole source elements of their supply chain (many of whom are foreign), raising the threat of vulnerability to single points of failure. This concern extends beyond defense-centric suppliers to commercial entities upon whom the Department increasingly relies for emerging technologies, to include artificial intelligence, autonomy, advanced computing, data analytics, biotechnology, and other fields. The COVID-19 pandemic has heightened awareness and underscores the need to verify the source of critical materials and components, have secure and diversified supply chains, and support the renewal of domestic suppliers. These efforts will ensure that the Department is better positioned to fulfill its own obligations while reducing the vectors for hostile powers to pressure suppliers by restricting or cutting off vitally needed production inputs. The Department is increasing efforts in this regard through implementation of actions pursuant to **Executive Order 13806**, enhanced support to the interagency Committee on Foreign Investment in the United States (**CFIUS**), and other related actions in concert with other elements of the federal government, allies, and partners.

Defense Acquisition poses challenges to the implementation of the National Defense Strategy.

Acquisition of weapons systems remains a significant risk to the Department. Given the increasing complexity of various weapons systems, the three main key performance indicators of cost, schedule, and performance are a constant challenge. Budget uncertainty, cybersecurity, and supplier risk contribute to this risk. Acquisition risk, for both defense-centric and common goods and services, is most challenging from a geopolitical perspective, as China's purchasing power is far greater than the United States. In addition, delayed acquisition timelines increase the risk that legacy systems may need to be sustained much longer than intended. To mitigate this risk, the Department has implemented a new approach to defense acquisition by reducing layers of bureaucracy over major defense acquisition, developing and issuing innovative guidance in the **DoD 5000 series** policies, revamping the acquisition workforce structure, and applying industry best practices, such as category management and contract efficiency assessments to identify and pursue greater effectiveness and efficiency in the acquisition of goods and services.

GAO HIGH RISK LIST

The GAO issues a biennial list of programs and operations across the Federal Government that they determine to be 'high risk' due to vulnerabilities to fraud, waste, abuse, and mismanagement, or that need transformation. The FY 2019 GAO High Risk List (**GAO-19-157SP**) included the following risks specifically related to the Department:

- DoD Approach to Business Transformation
- DoD Business System Modernization
- DoD Contract Management
- DoD Financial Management
- DoD Support Infrastructure Management
- DoD Weapon Systems Acquisition

In July 2020, the OUSD(C) took the initiative of issuing a memorandum to the GAO showcasing the Department's accomplishments in addressing these risks along the five GAO evaluation criteria: leadership commitment, capacity, action plan, monitoring, and demonstrated progress. The Department later submitted supporting documentation for all of the accomplishments reported in the memorandum to substantiate the included assertions. The Department is committed to driving continual progress towards addressing these risks in support of more effective and efficient operations, and anticipates working collaboratively with GAO to identify areas for improvement.

FORT BENNING, Ga. - Soldiers from Able Company, 1st Battalion, 19th Infantry Regiment prepare to qualify with the M4 Rifle Gordon Range, September 02, 2020.

PHOTO CREDIT: Markeith Horace, Fort Benning Maneuver Center of Excellence photographer

FINANCIAL HIGHLIGHTS AND ANALYSIS

The principal financial statements are prepared to report the financial position and results of operations of the Department, pursuant to the requirements of **31 U.S.C. §3515(b)**.

The statements are prepared from the books and records of the Department in accordance with the formats prescribed by OMB **Circular No. A-136** and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (**FASAB**). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

The DoD Agency-wide financial statements and accompanying notes are located in the Financial Section of this report. The principal financial statements include:

- **01** BALANCE SHEET
- **02** STATEMENT OF NET COST
- **03** STATEMENT OF CHANGES IN NET POSITION
- **04** STATEMENT OF BUDGETARY RESOURCES

U.S. and Canadian navy ships, including the HMCS Ville de Quebec, the USS Montpelier, the USS Harry S. Truman and the USS Normandy, travel in formation with a Royal Canadian Air Force CP-140 Aurora during an exercise in the Atlantic Ocean, May 31, 2020.

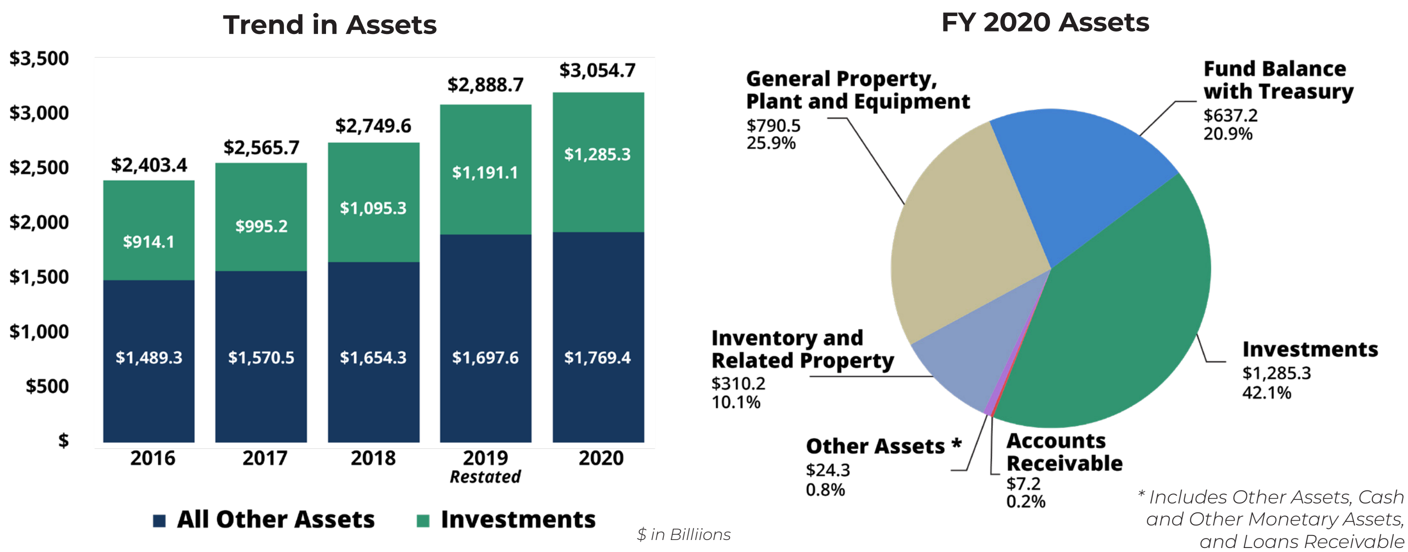
Photo credit: Navy Seaman Isaac Esposito

BALANCE SHEET

The Balance Sheet, which represents the Department's financial position as of September 30, 2020, and September 30, 2019, reports probable economic benefits obtained or controlled by the Department (Assets), claims against those assets (Liabilities), and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budgetary resources, improvements in internal controls, and implementation of more disciplined accounting and reporting practices throughout the organization.

As of September 30, 2020, the Department's $3.1 trillion in assets predominately comprised Investments; Fund Balance with Treasury (FBwT); General Property, Plant, and Equipment (PP&E); and Inventory and Related Property (I&RP), which together represented 99.0% of the Department's assets (see Figure 16).

Figure 16: Summary of Total Assets (Unaudited)



The Department restated the FY 2019 General PP&E and I&RP balances to correct errors, resulting in a $1.3 billion decrease in Total Assets as compared to the balance reported in the FY 2019 Agency Financial Report. See Note 28, *Restatements*, in the Financial Section for more information.

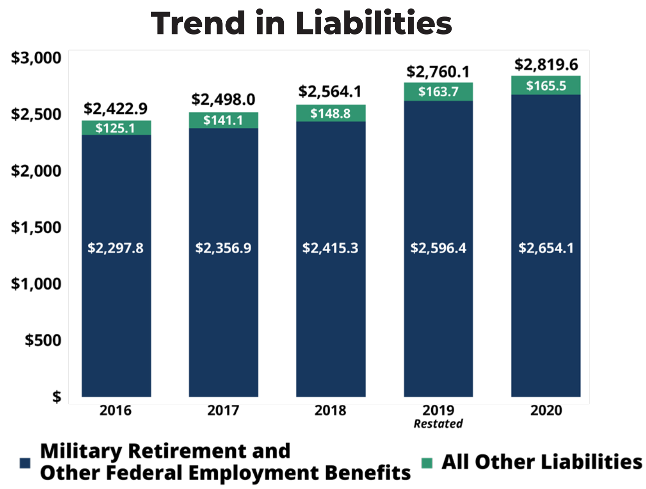
During FY 2020, the Department's total assets increased by $166.0 billion (5.7%) as compared to FY 2019, primarily attributable to the following changes:

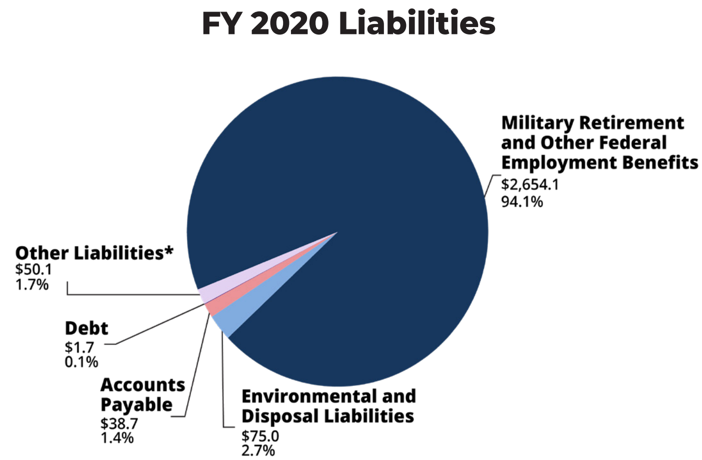
- Investments in securities issued by the Treasury increased by $94.2 billion due to normal portfolio growth funded by contributions provided by Treasury and the Uniformed Services. See Note 5, *Investments and Related Interest*, in the Financial Section for more information.
- FBwT increased by $29.6 billion, primarily as a result of increases in budgetary resources received over recent years. See Note 3, *Fund Balance with Treasury*, in the Financial Section for more information.
- I&RP increased by $17.6 billion, primarily as a result of the Department's continuing efforts to implement more disciplined accounting practices in areas such as completeness and existence, asset valuation, and compliance with accounting standards. See Note 8, *Inventory and Related Property*, in the Financial Section for more information.
- General PP&E increased by $24.3 billion, primarily as a result of the continued implementation of more disciplined accounting practices, such as establishing opening balances and revising asset valuations in accordance with Statement of Federal Financial Accounting Standards **(SFFAS) 50** and properly reclassifying assets formerly recorded as Advances and Prepayments to Construction in Progress. See Note 9, *General PP&E*, in the Financial Section for more information.

BALANCE SHEET (CONTINUED)

As of September 30, 2020, the Department's $2.8 trillion of liabilities predominantly comprised Military Retirement and Other Federal Employment Benefits and Environmental and Disposal Liabilities, which together represented 96.8% of the Department's liabilities (see Figure 17). The Department's liabilities are backed by the full faith and credit of the U.S. Government.

Figure 17: Summary of Total Liabilities (Unaudited)





$ in Billiions

* Includes Other Liabilities and Loan Guarantee Liability

The Department restated the FY 2019 Accounts Payable balance to correct errors, resulting in a $0.1 billion increase in Total Liabilities as compared to the balance reported in the FY 2019 Agency Financial Report. See Note 28, *Restatements*, in the Financial Section for more information.

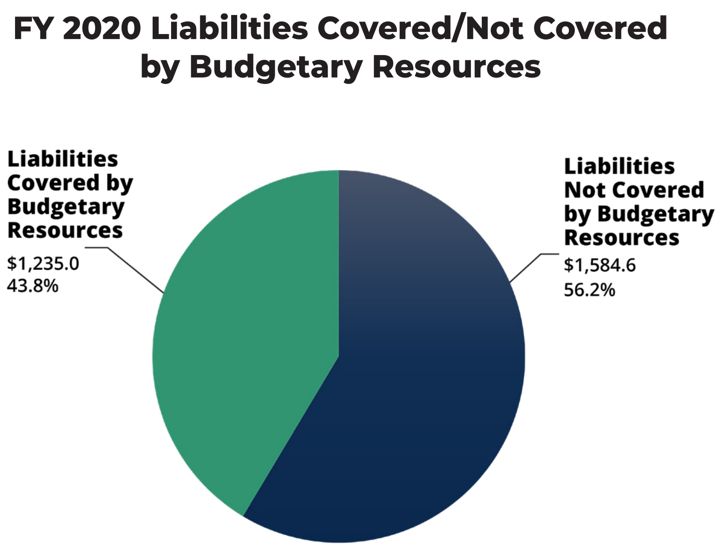
During FY 2020, the Department's total liabilities increased by $59.5 billion (2.2%) as compared to FY 2019, primarily attributable to the following changes:

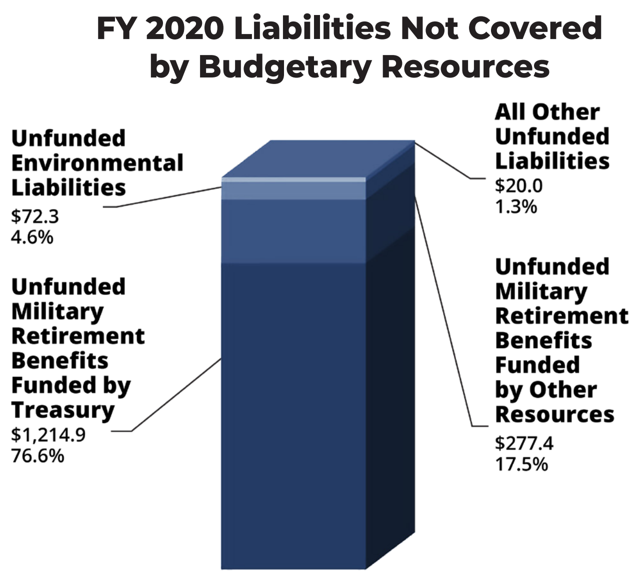
- The Military Retirement and Other Federal Employment Benefits liability increased by $57.7 billion, primarily due to revised actuarial estimates associated with annuities, pension and health care benefits for military personnel and their survivors. This actuarial adjustment considers expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. See Note 13, *Military Retirement and Other Federal Employment Benefits*, in the Financial Section for more information.
- Environment and Disposal Liabilities decreased by $1.1 billion due to continuing efforts to safely dispose of munition stockpiles in accordance with **Chemical Weapons Convention (CWC) Treaty, Convention on the Prohibition of the Development, Production, Stockpile and Use of Chemical Weapons and on their Destruction** codified in **Title 50, United States Code, section 1521** (50 U.S.C. § 1521). See Note 14, *Environmental and Disposal Liabilities*, in the Financial Section for more information.
- Other Liabilities increased by $5.5 billion, primarily due to a $2.3 billion increase in Accrued Unfunded Annual Leave, $1.8 billion in advance payments received from the **Department of Health and Human Services** for the delivery of food and medical supplies in support of the Department of Defense's COVID-19 relief efforts, and $0.6 billion in advance payments received from the Department of Veterans Affairs for construction work to be performed by USACE on the **Veterans Affairs Medical Center – Louisville, Kentucky**. See Note 15, *Other Liabilities*, in the Financial Section for more information.

BALANCE SHEET (CONTINUED)

As of September 30, 2020, $1.6 trillion (56.2%) of the Department's liabilities were not covered by budgetary resources (see Figure 18). Of this amount not covered by budgetary resources, $1.2 trillion (75.0%) was related to Unfunded Military Retirement Benefits to be funded by the Treasury. See Note 11, *Liabilities Not Covered by Budgetary Resources*, in the Financial Section for more information.

Figure 18: Liabilities Covered/Not Covered by Budgetary Resources (Unaudited)





$ in Billiions

Marine Corps Cpl. Madison Green, right, an animal care specialist assigned to the Camp Zama Veterinary Treatment Facility in Japan, greets Layla, a beagle, August 25, 2020.

Photo credit: Winifred Brown, Marine Corps

STATEMENT OF NET COST

The Statement of Net Cost presents the net cost of all the Department's major programs. The statement reports total expenses incurred less revenues received from external sources to finance those expenses (such as investment earnings, contributions to support retirement and health benefit requirements, and earnings from reimbursed activities). Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant and equipment. See Note 24, *Reconciliation of Net Cost to Net Outlays*, in the Financial Section for additional information.

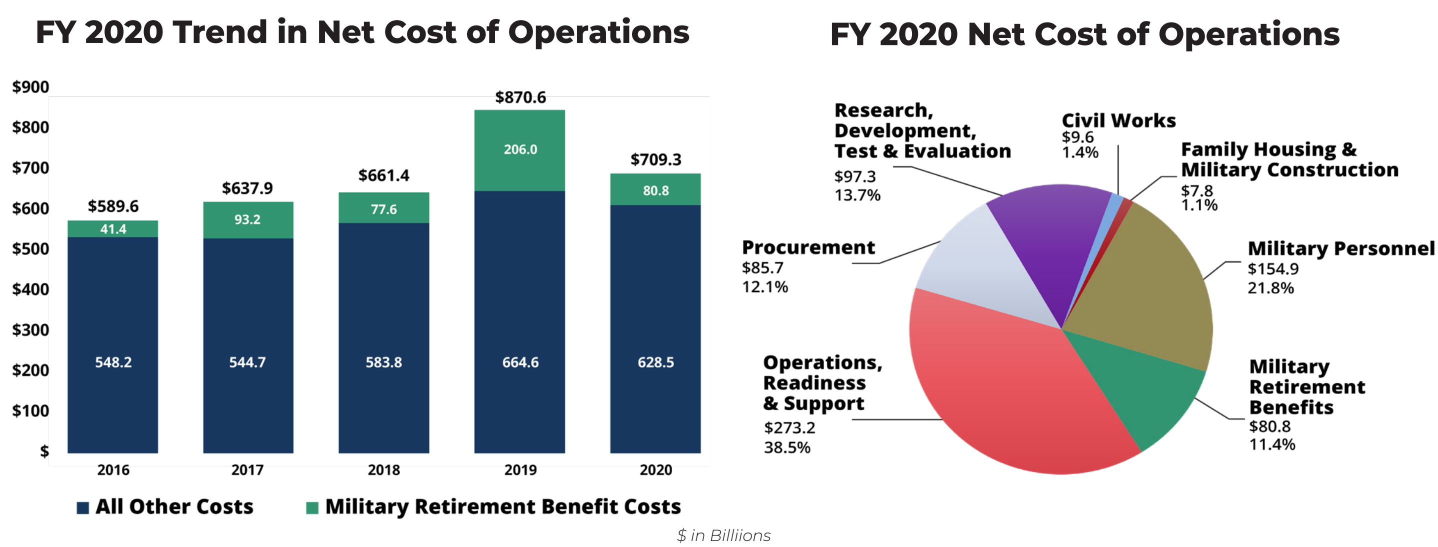
The Department categorizes the various costs incurred during the fiscal year into seven major programs:

- Military Retirement Benefits includes expenditures that cover eligible members' retirement pay, disability retirement pay, and/or health care benefits for Medicare-eligible members and their dependents or survivors.
- Civil Works includes expenditures related to Energy and Water Development programs executed by USACE that primarily fulfill three mission areas: commercial navigation; flood and storm damage reduction; and aquatic ecosystem restoration.
- Military Personnel includes expenditures for the salaries and other compensation for active military personnel, reserve, and guard forces. Other compensation includes a variety of expenditures, such as housing, subsistence, and other allowances; special pay categories (e.g., incentive pay for hazardous duty); and contributions from the Uniformed Services (i.e., the Military Services, **National Oceanic and Atmospheric Administration**, and the **Public Health Service**) for future benefits under the Medicare-Eligible Retiree Health Care Fund.
- Operations, Readiness, and Support includes expenditures that provide benefits are derived for a limited period of time, such as salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, purchases from Defense Working Capital Funds (e.g., spare parts), base operations support and assets with a system unit cost less than the current capitalization threshold.
- Procurement includes expenditures for the acquisition of items which provide long-term benefits as well as all costs necessary to bring the items to the condition and location for their intended operational use.
- Research, Development, Test, and Evaluation includes expenditures related to efforts that increase the Department's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These efforts include all costs necessary to develop and test prototypes, including purchases of end-items, weapons, equipment, components, and materials, as well as the performance of services.
- Family Housing and Military Construction includes expenditures associated with purchasing, leasing, and support services for property that house Military Service members and their families as well as expenditures related to planning, designing, constructing, altering, and improving the Department's worldwide portfolio of military facilities.

STATEMENT OF NET COST (CONTINUED)

The major programs composing the greatest share of the Department's $709.3 billion FY 2020 Net Cost of Operations were Operations, Readiness, and Support; Military Personnel; and Research, Development, Test, and Evaluation, which together represented 74.1% of the Department's Net Cost of Operations (see Figure 19).

Figure 19: Summary of Net Cost of Operations (Unaudited)



During FY 2020, the Department's Net Cost of Operations decreased by $161.4 billion (18.5%) as compared to FY 2019, primarily attributable to changes in actuarial assumptions resulting in a $125.2 billion decrease in the net cost of military retirement benefits. A key change in the long-term economic assumptions underlying the actuarial calculations, as required by **SFFAS 33**, led to a substantial net loss in FY 2019. This along with other factors such as actual and projected demographic trends, plan amendments and changes in experience in the Department's retirement and medical benefits led to a net gain of $17.4 billion in FY 2020 compared to a net loss of $138.8 billion in FY 2019, resulting in a year-over-year fluctuation of $156.2 billion. See Note 19, *Disclosures Related to the Statement of Net Cost*, in the Financial Section for additional information.

STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position (SCNP) presents the total cumulative results of operations since inception and unexpended appropriations at the end of the fiscal year. The SCNP displays the components of Net Position separately to enable the financial statement user to obtain a better understanding of the nature of changes to Net Position as a whole. The statement focuses on how the Net Cost of Operations is financed and displays the other sources that finance the Department's operations.

The Department restated the FY 2019 General PP&E, I&RP, and Accounts Payable balances to correct errors, resulting in a $1.4 billion decrease in Net Position as compared to the balance reported in the FY 2019 Agency Financial Report. See Note 28, *Restatements*, in the Financial Section for more information. During FY 2020, the Department's Net Position increased by $106.5 billion (82.9%) as compared to FY 2019, primarily attributable to the following changes:

- Unexpended Appropriations increased by $25.8 billion, primarily attributable to a $14.1 billion increase in Beginning Balance (the amount of Unexpended Appropriations carried forward from the previous year) and a $39.7 billion increase in Appropriations Received (but not expended), offset by a $33.4 billion increase in Appropriation Used. These changes were largely driven by the increases in budgetary resources received over recent years.

- Cumulative Results of Operations (which has an inverse effect on Net Position) increased by $80.8 billion, primarily attributable to the following changes:

    - Beginning Balance increased $71.2 billion as the result of the FY 2019 Total Financing Sources received being lower than the FY 2019 Net Cost of Operations. This Beginning Balance was further adjusted downward in FY 2020 by $7.4 billion due to Prior Period Adjustments primarily related to the Department's continuing efforts to establish opening balances and revise valuations for General PP&E in accordance with SFFAS 50.

    - Net Cost of Operations decreased by $161.4 billion primarily due to Actuarial Assumption Changes for Military Retirement Benefits.

See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, in the Financial Section for additional information.

SPC Daniel Willard from Fort Riley WTB shoots the ball during the wheelchair basketball game at the Pacific Regional Camps hosted by the Regional Health Command - Pacific Friday December 13, 2019 at Joint Base Lewis-McChord.
PHOTO CREDIT: John Wayne Liston

STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. In FY 2020, the Department reported $1.3 trillion in total budgetary resources (see Figure 20).

Figure 20: Composition of DoD Total Budgetary Resources (Unaudited)

$ in billions

DESCRIPTION	FY 2020	Restated FY 2019	FY 2018	FY 2017	FY 2016
Appropriations (Discretionary and Mandatory) Reported on SBR	$ 914.2	$ 874.4	$ 863.6	$ 777.0	$ 745.7
Unobligated Balances from Prior Year Budget Authority	213.3	226.8	181.0	181.0	180.4
Spending Authority from Offsetting Collections	130.3	113.0	119.4	105.7	105.9
Contract Authority	78.7	86.8	88.4	76.5	69.7
Total Budgetary Resources	**$ 1,336.5**	**$ 1,301.0**	**$ 1, 252.4**	**$ 1,140.2**	**$ 1,101.7**

Of the $1.3 trillion in Total Budgetary Resources for FY 2020, $1,157.3 billion was obligated and $872.1 billion of obligations were disbursed. The remaining Unobligated Balance of $179.2 billion relates primarily to appropriations available to cover multi-year investment projects that require additional time for delivery of goods and services.

An understatement of $16.0 million affecting FY 2019 obligations was corrected as a restatement in FY 2020. The restatement resulted in an increase in the reported FY 2019 New Obligations and Upward Adjustments and offsetting decrease in the FY 2019 Unobligated Balance, End of Year. See Note 28, *Restatements*, in the Financial Section for more information.

Expired unobligated appropriations remain available for five years after expiration for valid upward adjustments to prior year obligations but are not available for new obligations. In FY 2020, the Department reduced the amount of the Expired Unobligated Balance at the end of the fiscal year by $1.5 billion (to $21.2 billion in FY 2020 from $22.7 billion in FY 2019). This was due to improvements in financial management of expiring resources. In carrying out its operations, the Department must balance the goal of judiciously obligating available budgetary resources before they expire with the mandate to avoid over-obligating or over-expending funds in violation of the Antideficiency Act. The vast amount and variety of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting-edge technology efforts, and contingency operations) that must be carried out without exceeding available budget authority often result in adjustments that must be recorded beyond the year(s) of initial obligation, as authorized by **31 U.S.C. §1553**. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments.

See Note 21, *Disclosures Related to the Statement of Budgetary Resources*, in the Financial Section for additional information.

FINANCIAL PERFORMANCE SUMMARY

The following table summarizes the Department's condensed FY 2020 financial position and results of operations, including comparisons of financial balances from the current year to the prior year (see Figure 21). Although the Department received a Disclaimer of Opinion on its financial statements, audit remediation efforts will continue to improve the Department's financial information.

Figure 21: Financial Performance Summary (Unaudited)

$ in Billions	FY 2020	Restated FY 2019	Increase/(Decrease) $	Increase/(Decrease) %
Costs				
Total Financing Sources	$ 797.4	$ 788.1	$ 9.3	1.2%
Less: Net Cost	709.3	870.6	(161.3)	-18.5%
Net Change of Cumulative Results of Operations	**$ 88.1**	**$ (82.5)**	**$ 170.7**	**-206.9%**
Net Position				
Assets:				
Fund Balance with Treasury	$ 637.2	$ 607.6	$ 29.6	4.9%
Investments	1,285.3	1,191.1	94.2	7.9%
Accounts Receivable	7.2	7.9	(0.7)	-8.9%
Other Assets *	24.3	23.3	1.0	4.3%
Inventory and Related Property, Net	310.2	292.6	17.6	6.0%
General Property, Plant and Equipment, Net	790.5	766.2	24.3	3.2%
Total Assets	**$ 3,054.7**	**$ 2,888.7**	**$ 166.0**	**5.7%**
Liabilities				
Accounts Payable	$ 38.7	$ 41.3	$ (2.6)	-6.3%
Other Liabilities **	51.8	46.3	5.5	11.9%
Military Retirement and Other Federal Employment Benefits	2,654.1	2,596.4	57.7	2.2%
Environmental and Disposal Liabilities	75.0	76.1	(1.1)	-1.4%
Total Liabilities	**$ 2,819.6**	**$ 2,760.1**	**$ 59.5**	**2.2%**
Net Position (Assets minus Liabilities)	**$ 235.1**	**$ 128.6**	**$ 106.5**	**82.8%**

** Other Assets includes Other Assets, Cash and Other Monetary Assets, and Loans Receivable*
*** Other Liabilities includes Debt, Other Liabilities, and Loan Guarantee Liability*

AUDIT OVERVIEW

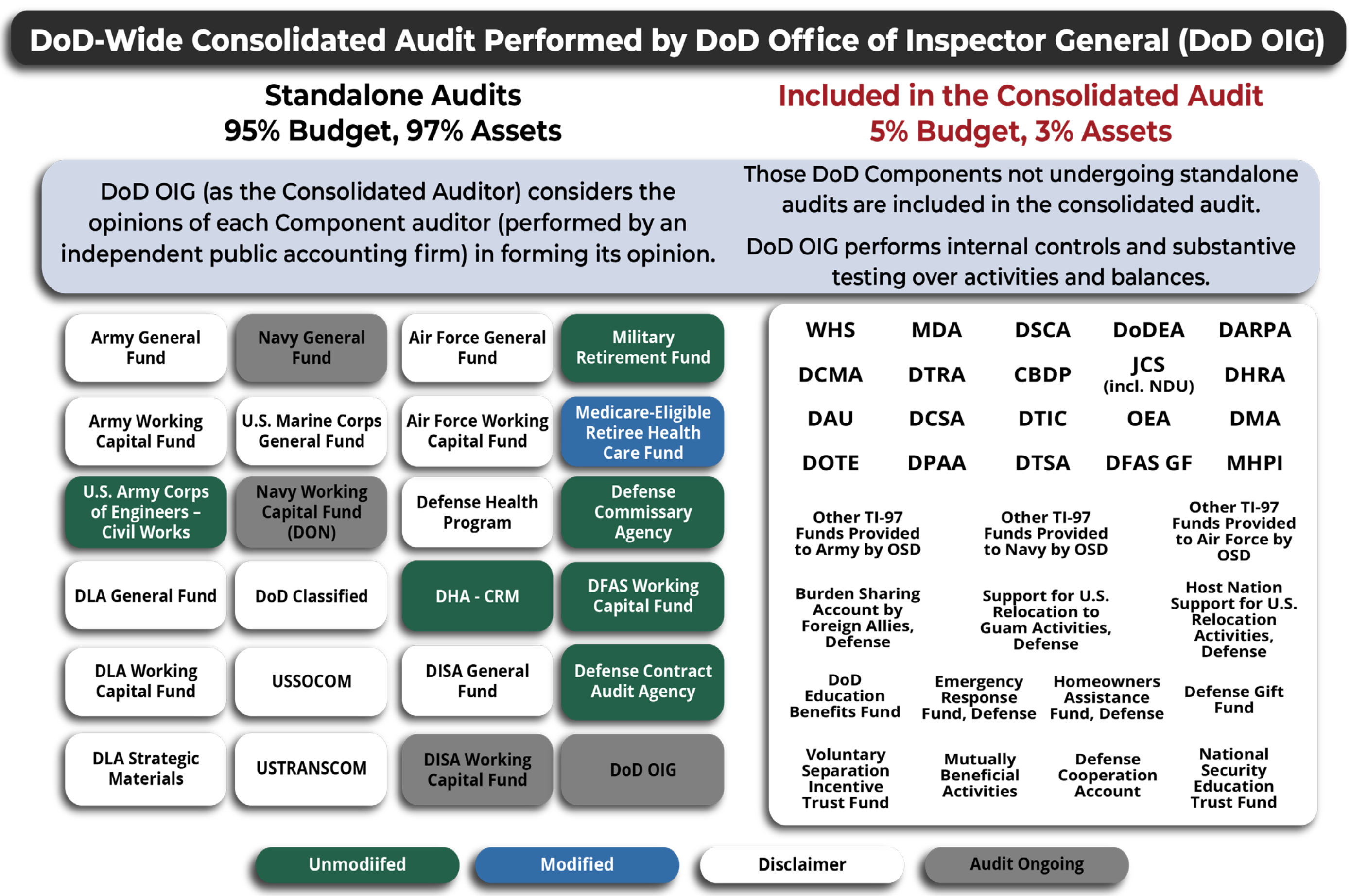
The annual financial statement audit regimen is foundational to reforming the Department's business practices consistent with the NDS. Data from the audits provide an additional means to define remediation goals, measure progress, and evaluate alternatives.

The FY 2020 audit covered the Department's total assets of approximately $3.1 trillion and involved more than 1,400 auditors, who conducted over 600 site visits (more than 500 of which were conducted virtually). Auditor findings and recommendations help DoD leaders prioritize improvements, drive efficiencies, identify issues with systems, measure progress, and inform business reform efforts. The outcomes of the audit remediation efforts will include greater financial data integrity, better support for the warfighter, and increased transparency for Congress and the American people.

FY 2020 AUDIT RESULTS

Auditors conducted 24 standalone audits of DoD reporting entities and the DoD OIG performed the overarching consolidated audit. Six reporting entities received unmodified opinions, one received a qualified opinion, and four audits are ongoing (see Figure 22).

Figure 22: FY 2020 Audit Structure and Results



FY 2020 AUDIT RESULTS (CONTINUED)

The audits of the Navy General Fund, Navy Working Capital Fund, and Defense Information Systems Agency (**DISA**) Working Capital Fund were extended until December 2020, and the audit of the DoD OIG is scheduled to conclude in March 2021.

This was the 13th consecutive unmodified opinion for the U.S. Army Corps of Engineers – Civil Works, the 21st consecutive unmodified opinion for the Defense Finance and Accounting Service (**DFAS**) Working Capital Fund, and the 26th consecutive unmodified opinion for the Military Retirement Fund. The Military Retirement Fund's nearly $980 billion in total assets represents more than 30% of total DoD assets.

All other DoD reporting entities received a Disclaimer of Opinion. A Disclaimer of Opinion means the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion on the financial statements. The Department's leadership fully expected these results, as receiving a Disclaimer of Opinion is consistent with the experiences of other large and complex federal agencies during their initial years under financial statement audit.

The DoD OIG identified 26 Department-wide material weaknesses in internal controls during the FY 2020 consolidated audit, a net increase of 1 material weakness from those identified during the FY 2019 audit. Additionally, the FY 2020 audits (consolidated and standalones) resulted in the issuance of more than 1,800 Notices of Findings and Recommendations (NFRs).

The Department anticipates receiving significantly more NFRs as the auditors finish compiling their findings and developing the related NFRs. In addition to issuing NFRs, each auditor identified the audited DoD Component's material weaknesses in their Independent Auditor's Report. Understanding how the various DoD Component NFRs align to the DoD Agency-wide material weaknesses provides a consistent framework for categorizing NFRs, allows DoD leaders to better prioritize corrective actions, and focuses remediation efforts on the most significant and pervasive challenges.

The DoD OIG's Independent Auditor's Report on the FY 2020 DoD Agency-wide financial statements is available in the Financial Section. A summary of the DoD Agency-wide audit- and management-identified material weaknesses, as well as planned corrective actions, is available in Other Information. The Independent Auditor's Report for each standalone audit is available in the respective DoD Component's financial statements available on the Office of the Deputy Chief Financial Officer's (ODCFO) website at **https://comptroller.defense.gov/ODCFO/afr.**

A U.S. Air Force HH-60G Pave Hawk rescue helicopter assigned with the 55th Rescue Squadron, Davis-Monthan, AFB, Arizona stands-by at Moffett Air National Guard Base, California, August 28, 2020.

PHOTO CREDIT: Air National Guard Master Sgt. Ray Aquino

FY 2020 AUDIT PRIORITIES

During FY 2020, the Department expanded its audit priority areas from the four areas focused on in FY 2019 to include four additional priorities. The Department's strategy for addressing these priorities remains on implementing corrective actions that will result in operational improvements that provide the greatest value to the warfighter in the near-term. Although some issues related to these business areas may require long-term solutions (such as retiring legacy systems), the FY 2020 audit priorities contained various opportunities that were immediately actionable at multiple levels throughout the Department.

The FY 2020 audit priorities were:

- Real Property (Existence and Completeness)
- Inventory, and Operating Materials and Supplies (OM&S)
- Government Property in the Possession of Contractors
- Access Controls for IT Systems
- Fund Balance with Treasury
- Financial Reporting Internal Controls
- Joint Strike Fighter Program
- Supporting Audit Progress for DoD Components with Disclaimers of Opinion

Examples of the Department's progress in addressing these priorities include:

- The Department of the Navy conducted a physical count of its Inventory and OM&S through the Navy Material Accountability Campaign, resulting in the identification of almost $442.8 million in assets that were not previously reflected in their records. Of this amount, approximately $361.8 million were added to an accountable property system of record for future redeployment and $81.0 million was disposed due to obsolescence.
- The Department of the Army developed and implemented a Python-based solution to automate the review of accounting transactions entered into the General Fund Enterprise Business System and the Logistics Modernization Program system for compliance with the **U.S. Standard General Ledger** transaction library. This solution strengthens the Army's internal controls over financial reporting by improving the identification of non-compliant transaction entries which may result from various potential issues (such as manual entries, incorrect job aids, and improperly implemented posting logic) and facilitating the development of system change requests to correct identified non-compliant posting logic.
- The Department of the Air Force implemented the Theatre Integrated Combat Munitions System (TICMS) at all Air Force installations to serve as their single application worldwide for configuration management, capability analysis, and combat support related to conventional munitions, which compose the majority of the Air Force OM&S balance. This system improves the accuracy of the Air Force's financial reporting of OM&S by enhancing visibility into Air Force-owned munitions managed by the Department of the Army through real-time transaction-level data.

COVID-19 AUDIT IMPACTS

The COVID-19 pandemic altered the timing and scope of the FY 2020 financial statement audits and the government-wide financial reporting timeline but not the Department's commitment to the audits or its mission. Throughout the audit, senior DoD leaders in OUSD(C), the Military Departments, and other DoD Components collaborated with the DoD OIG and other auditors to identify alternative procedures to allow audit work to continue while prioritizing the health and well-being of DoD personnel. However, travel restrictions, mandatory quarantines, and the government-wide policy to maximize the use of telework across the Federal workforce negatively impacted numerous aspects of the audit. For example:

- Audit testing of sensitive activities and areas that must be completed on site were delayed;
- Inventory, OM&S, and General PP&E, areas that required physical access to assets and documentation were heavily affected; and
- Site visits were postponed or canceled.

Despite these challenges and audit impacts, all of the standalone audits completed to date that received unmodified opinions in FY 2019 successfully sustained an unmodified opinion in FY 2020.

MEASURING AUDIT PROGRESS

The Department uses the number of auditor findings closed and material weaknesses downgraded to a significant deficiency or resolved from year to year as independent benchmarks for measuring progress toward achieving an unmodified opinion. During FY 2020, the Department succeeded in closing over 20% of the NFRs issued during the FY 2019 audit. However, many of the corrective actions the Department has implemented have not been in place long enough for the auditors to validate their effectiveness in addressing the issues identified in the NFRs. As such, the Department anticipates NFRs closing at increased rates over time as the audit and related remediation efforts mature. As the closings of these NFRs grow, the related material weaknesses are expected to be downgraded to significant deficiencies and resolved as the effect of implemented corrective actions continue to manifest themselves for validation by auditors.

Additionally, the Department measures audit progress by:

- Tracking the achievement of major milestones towards the remediation of complex NFRs;
- Assessing the quality of corrective action plan (CAP) preparation and implementation by comparing them to those previously validated by the auditors as successfully addressing NFRs;
- Identifying areas where auditors are able to rely on internal controls and moving validated CAPs into sustainment;
- Expanding Statement on Standards for Attestation Engagements (SSAE) No. 18 examinations and increasing reliance on System and Organizational Control (SOC) reports over service providers; and,
- Increasing reliance on Advana, the Department's advanced data analytics platform, for audit sampling, supporting transaction details in response to auditor requests, monitoring remediation activities, and inspiring data-driven conversation with DoD Components and other stakeholders.

The audit is driving the cultural changes needed to achieve the National Defense Strategy's business reform goals. By highlighting areas that need improvement, Department leaders are able to make targeted and effective decisions about streamlining processes and reducing the numbers of systems. Among other things, audit success will require IT system improvements and data consolidation, which will bring the added benefit of arming decision-makers with advanced data analytics capabilities to support driving and sustaining operational efficiency and effectiveness improvements. Ultimately, success is in the hands of the DoD workforce, who are already realizing the importance and benefits of the audit. By continuing to equip the workforce with resources and tools they need to respond to auditor requests and remediate audit findings, the Department will achieve its audit goals while sustaining an improved level of business proficiency.

STATEMENT OF ASSURANCE

November 16, 2020

The Department's management is responsible for the establishment and maintenance of effective internal controls to comply with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA). In fiscal year 2020, the DoD Office of Inspector General completed its third audit of DoD's consolidated financial statements. As the Department matures its audit posture, it will continue to improve and refine its controls to support the reliability and accuracy of financial reporting; effective and efficient programmatic operations; and compliance with applicable laws and regulations, to include requirements of federal financial management systems.

The Department assessed the effectiveness of internal controls over financial reporting in accordance with FMFIA §2 and OMB Circular No. A-123. While DoD internal controls continue to improve, the Department concluded that the controls in place to support reliable financial reporting as of September 30, 2020, were not effective to provide reasonable assurance that the financial statements were fairly stated in all material respects. Deficiencies in the design and operation of internal controls over financial reporting include ineffective processes and controls over posting of transactions to the general ledger and reconciling with the Department of the Treasury; compiling financial statements, reconciling data, and supporting entries; accounting for and valuing Property, Plant, and Equipment; ensuring the existence and completeness of inventory and operating material and supplies; ensuring the accountability of government property in the possession of contractors, to include Joint Strike Fighter program assets; and Component and Department oversight and monitoring of financial reporting.

The Department assessed the effectiveness of internal controls over operations and compliance with applicable laws and regulations in accordance with the FMFIA §2 and the Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, the Department provides a modified statement of reasonable assurance of the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2020. The Department continues to address all material weaknesses for internal controls over business operations, with increased focus in the areas of acquisition, contract administration, resource management, and cyber security.

The Department assessed the compliance of DoD financial management systems with federal financial management systems requirements in accordance with FMFIA §4; FFMIA §803(a); and OMB Circular No. A-123, Appendix D. They require federal agencies to implement and maintain financial management systems that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction-level. While the Department continues to achieve progress in the implementation of corrective actions to address various systems limitations, the results of the assessment provided that the Department's financial management systems do not fully comply with the requirements of FMFIA §4 and FFMIA §803(a) as of September 30, 2020.

FMFIA §2, FMFIA §4, and FFMIA §803(a) material weaknesses and corrective actions are further described in Other Information.

The Department remains committed towards significant and measureable improvements in its ability to provide reliable, timely, and useful financial and managerial information to support management decisions. Findings from the annual financial statement audits provide valuable insight critical towards the achievement by the Department's business reform goals and demonstrates its continued commitment to financial accountability and transparency.

David L. Norquist
Deputy Secretary of Defense

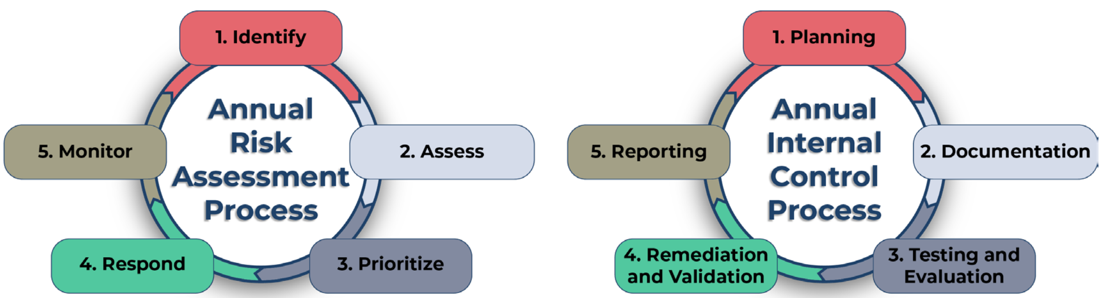
MANAGEMENT ASSURANCES

The Department is committed to ensuring an effective system of internal controls to provide reasonable assurance that its critical mission is met.

An effective system of internal controls is central to supporting the NDS line of effort to reform business practices for greater performance and affordability. By appropriately assessing internal controls, the Department can identify opportunities to improve business operations and support effective financial stewardship.

The Federal Managers' Financial Integrity Act of 1982 (**FMFIA**) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. OCMO and OUSD(C) lead the Department's effort in fulfilling this requirement via the Risk Management and Internal Controls (RMIC) Program, which succeeds and subsumes the responsibilities of the previous Enterprise Risk Management and Internal Control Program. The DoD RMIC Program holds both operational and financial managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility. In accordance with OMB **Circular No. A-123** and GAO Standards for Internal Control in the Federal Government ("**Green Book**"), the Department continually strives to integrate proactive risk management and effective internal controls into existing business activities. The Department, through the RMIC Program, prioritizes a risk-based approach that focuses on the remediation of audit findings aligned to the audit priority areas and the sustainment of business process improvements to advance the achievement of increased auditability (see Figure 23).

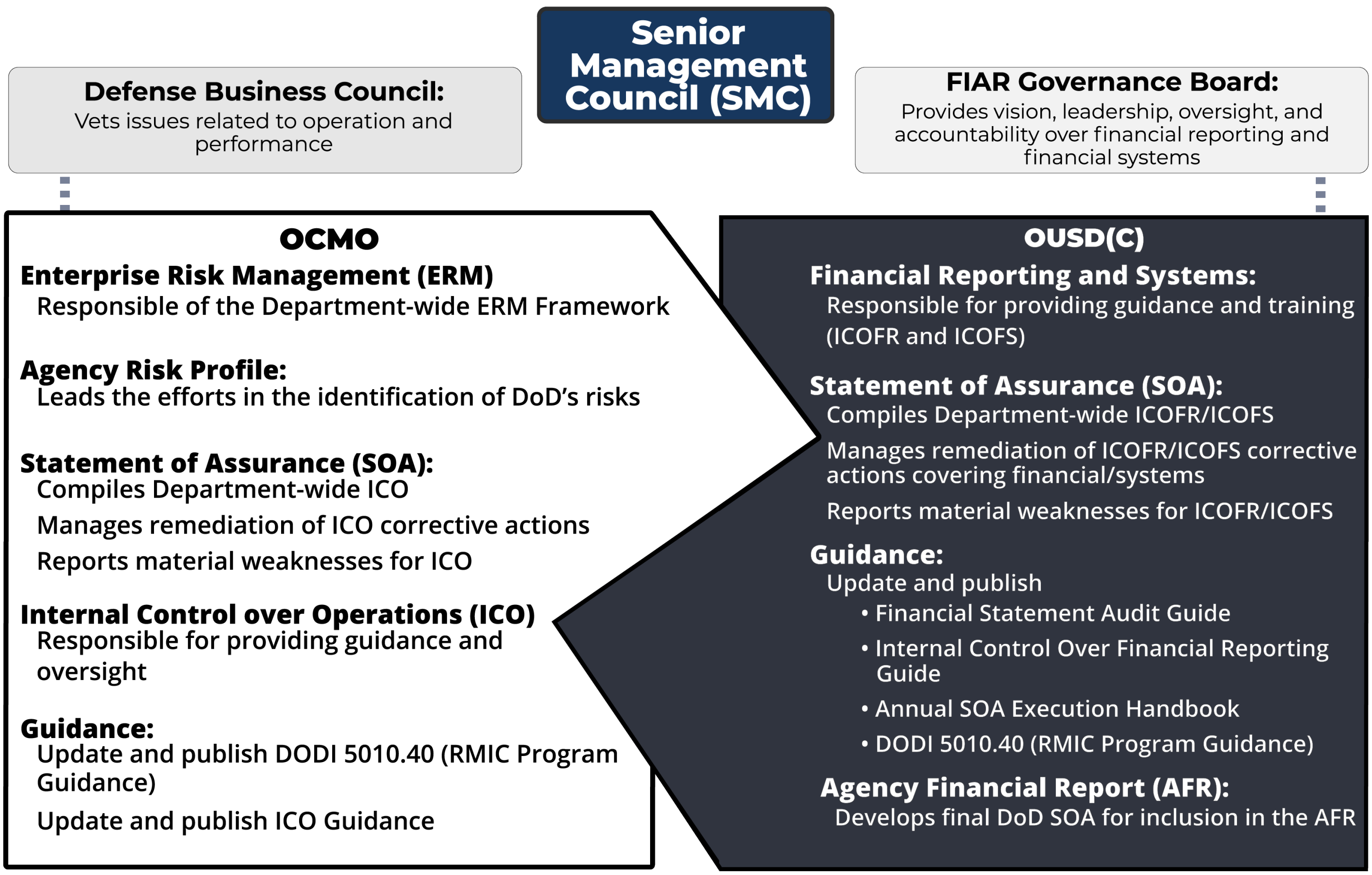
Figure 23: RMIC Program Process



1 **Identify**: Identify and categorize risks that impact the achievement of the NDS and NDBOP goals and objectives	1 **Planning**: Identify scope of controls based on risks identified
2 **Assess**: Apply risk rating criteria to evaluate overall exposure to the identified risks	2 **Documentation**: Obtain/create documentation to support high risk processes. Identify key controls for testing
3 **Prioritize**: Evaluate/Analyze risks to focus on the most critical risks	3 **Testing and Evaluation**: Perform testing of key controls and evaluate supporting documentation
4 **Respond**: Develop response to accept, avoid, reduce, transfer, or eliminate risk	4 **Remediation and Validation**: Identify corrective action plans and timeline for remediating and validating effectiveness
5 **Monitor**: Provide timely and relevant updates to leadership across the risk lifecycle	5 **Reporting**: Present the results of testing and Identify any gaps from testing

The RMIC Program is a continuous, year-round effort that culminates with the Department's report on the design and effectiveness of key control activities—the Statement of Assurance—which is compiled from information gathered from the DoD Components. The Components are responsible for performing risk assessments and internal control evaluations in accordance with OMB Circular No. A-123 and **DoD Instruction 5010.40**, maintaining evidence of their evaluations of material weaknesses and significant deficiencies in internal controls, and providing the information to Department-wide Senior Accountable Officials (SAOs) and Action Officers (AOs). The SAOs (executive-level subject matter experts) and the AOs who support them are responsible for reviewing the Components' evaluations of material weaknesses and significant deficiencies within their assigned assessable units (groups of related business processes used to facilitate evaluation), working with the Components to discuss the remediation status and milestones, and reporting progress to OCMO and OUSD(C) through the Senior Management Councils (see Figure 24).

Figure 24: RMIC Governance Oversight Roles



The Financial Improvement and Audit Remediation (FIAR) Governance Board, which is jointly chaired by the CMO and the Under Secretary of Defense (Comptroller)/Chief Financial Officer (**USD(C)/CFO**), is the Senior Management Council (SMC) that oversees financial audit remediation related to internal control over financial reporting (ICOFR) and internal controls over financial systems (ICOFS). The Defense Business Council, which is chaired by the CMO, is the SMC that oversees operational audit remediation related to internal controls over operations (ICO), to include overall Department operations and non-financial systems.

FY 2020 EFFORTS TO ADDRESS MATERIAL WEAKNESSES IN INTERNAL CONTROLS

Government Property in the Possession of Contractors

Inaccurate and incomplete records for government property in the possession of contractors can negatively affect the Department's ability to manage its property and make decisions regarding acquisition, disposal, and reutilization. Financial managers currently lack proper visibility into the existence of government property in the possession of contractors, and as a result, financial reporting is inaccurate. To mitigate this risk, the Department modified certain contracts that issue government property to contractors. Where implemented, these new requirements will assist the Department to identify, report, and continually monitor assets in contractors' possession. Additionally, the Department implemented a new module within the **Procurement Integrated Enterprise Environment** (the Department's central repository for procurement capabilities) that was specifically designed to streamline the recognition, visibility, and reporting of contractor-held government property within its existing procurement environment. The Department also implemented new reporting metrics that will drive improvement in the management of contractor-held property by validating information such as the inclusion of required government property clauses that provide reporting and tracking requirements, contractor submissions of required property tracking data, and proper recording of contractor-held property in accounting and property systems. Further, the Department of the Navy is conducting a pilot program to evaluate the effectiveness of new contract data reports intended to standardize inventory reporting for contractors with government property. Lessons learned from this pilot will be reviewed for potential improvements that can be incorporated into current Department-wide procedures for managing government property in the possession of contractors.

Fund Balance with Treasury

Ineffective and untimely reconciliation of Fund Balance with Treasury accounts between DoD and Treasury may result in the inefficient or inaccurate management of budgetary resources as well as material misstatements in financial reporting. To mitigate this risk, the Department is executing several initiatives to improve business processes, reduce reporting differences, and automate account reconciliations, such as developing management analysis reports for monitoring certain disbursement offices activities and standardizing and centralizing Fund Balance with Treasury systems and processes. The initiatives relate to sub-processes that affect the reconciliation process and should eventually result in a downgrade of the Fund Balance with Treasury material weakness to a significant deficiency. Some notable areas of focus and improvement for the Department include the reduction of total and aged disbursing offices differences between DoD and Treasury, balances in temporary holding accounts, and manual adjustments.

Unsupported Accounting Adjustments

The Department continues to operate hundreds of financial and feeder systems across the enterprise. These legacy systems, many of which were designed and implemented in the 1960s, are not able to capture all of the transaction-level data attributes needed to satisfy various accountability and reporting requirements. As a result, the Department must perform manual work-around processes using journal vouchers, some of which are not adequately supported by substantiating documentation. In the absence of support, auditors cannot verify the accuracy and applicability of the data captured by these journal vouchers. To mitigate this risk, the Department is continuing to aggressively retire and replace legacy systems while working to determine and address root causes of unsupported journal vouchers. Key remediation initiatives are focused on fixing accounting systems, implementing new controls and business processes, identifying and resolving unsupported journal vouchers, and increasing the production and maintenance of supporting documentation.

SYSTEMS COMPLIANCE AND STRATEGY

The Department is engaged in a complex and challenging transformation effort to reform its financial management (FM) environment for enhanced mission effectiveness and auditability

This necessarily includes improving business systems compliance with the Federal Financial Management Improvement Act of 1996 (**FFMIA**) and OMB Circular No. A-123, **Appendix D**. Modernization and improved interoperability of DoD business systems are critical to efficiently respond to warfighter needs, sustain public confidence in the Department's stewardship of taxpayer funds, and support the path to full auditability. The remediation of the findings from the financial statement audits is a significant part of the Department's FM improvement strategy and an accelerator for achieving a target environment that is data-driven, standards-based, technology-enabled, affordable, secure, and auditable.

The **NDAA for FY 2012** authorizes the Secretary of Defense to act through the Defense Business Systems Management Committee to develop the Defense Business Enterprise Architecture (**BEA**), which comprises all defense business systems (DBSs)—information systems other than national security systems that are operated by, for, or on behalf of the Department—as well as the supported functions and activities. The purpose of the BEA is to effectively guide, constrain, and permit implementation of interoperable DBS solutions that are consistent with the policies and procedures established by the Director of the OMB. The CMO is responsible and accountable for developing and maintaining the BEA as well as integrating business operations, while the USD(C)/CFO is responsible and accountable for the content of those portions of the BEA that support FM activities, strategic planning, and budgeting activities.

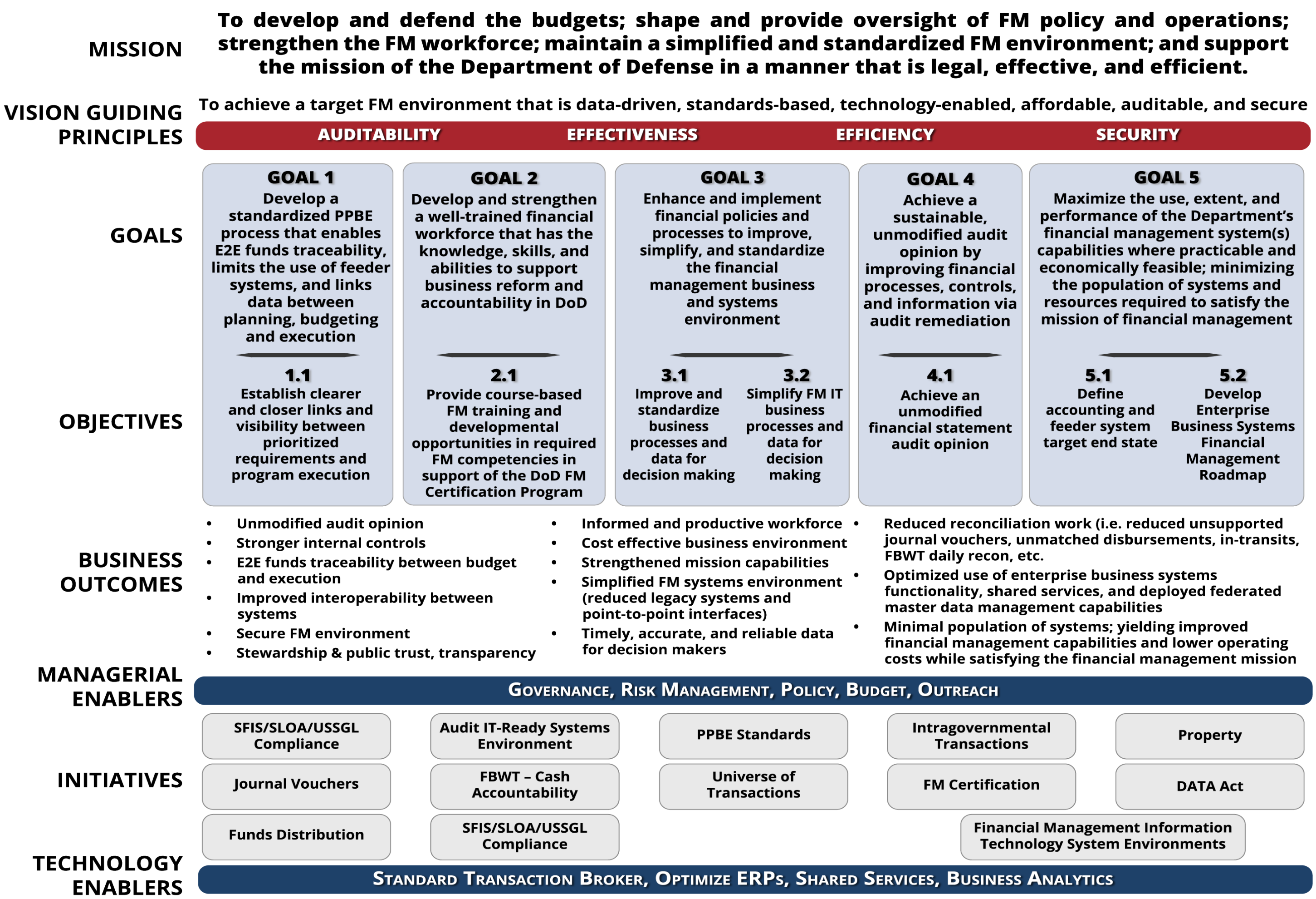
In accordance with section 1002 of the **NDAA for FY 2020**, the Department submitted a DBS Audit Remediation Plan to Congress in July 2020. This plan is a living document that provides an integrated view of the enterprise roadmap for audit-relevant DBSs, leveraging the BEA to guide investment decisions. The plan presented the CMO's current account of DBSs of the Department that will be introduced, replaced, updated, modified, or retired in connection with the Department's financial statement audit. It also established a foundation for a future roadmap that will:

- Capture in-service, retirement, and other pertinent dates for affected DBSs;
- Describe current cost-to-complete estimates for each affected DBS; and
- Document dependencies both between the various DBSs and the introduction, replacement, update, modification, and retirement of such systems.

In addition, the DBS Audit Remediation Plan highlights the Department's progress and identifies areas of improvements for procedures in monitoring and managing its DBSs to develop a sustainable enterprise roadmap. Although the report serves as a baseline to advance the Department forward, a key improvement identified in the plan is to establish an enterprise target date to achieve the desired end state. The outcomes of executing this plan will maximize the performance of the Department's financial management systems while also reducing the population of these systems. By defining a target state, documenting the transition plan to deliver the target state, and monitoring progress towards the target state, the DBS Audit Remediation Plan aligns with the FM community's guiding principles and strategic goals as defined in the FM Functional Strategy.

The FM Functional Strategy offers FM direction and guidance for the Principal Staff Assistants, Military Departments, and other DoD Components as the Department builds for the future. It also provides a foundation on which to base FM investment decisions that support the FM strategic outcomes (see Figure 25).

Figure 25: FM Functional Strategy



The Department's FM Functional Strategy provides the Department's vision, initiatives, goals, target environment, and expected outcomes over five years. Rooted in fiscal accountability and financial improvement, the DoD FM Functional Strategy for FY 2020 – FY 2024 will lead to the achievement of the following strategic outcomes, which are essential for meeting the Department's national security mission:

- Stewardship and public trust of taxpayer funds through transparency;
- Audit corrective action sustainability;
- Strengthened mission capabilities;
- Authoritative, accurate, and timely information for decision making;
- Informed, trained, and productive workforce;
- Affordable and secure Financial Management environment; and,
- Robust internal control environment that will support and sustain an unqualified audit opinion

The key components of the FM Functional Strategy include creating data and data exchange standards, implementing system controls and enhancements, establishing standard business processes, and leveraging technology across the Department's end to-end processes. The primary objective of the FM Functional Strategy is to achieve a fully integrated environment linked by standard processes and standard data with the fewest number of systems and interfaces. Ultimately, this strategy will lead to stronger internal controls, improvements in end-to-end funds traceability, and greater linkage between budget and expenditures. Current enterprise-level initiatives include the implementation of the Standard Financial Information Structure (**SFIS**), promotion of the use of business analytics, and progression of the development and use of Enterprise Resource Planning (ERP) systems. The Department also participates in Federal Government-wide business process improvement efforts as well as the Treasury's **Government- wide Accounting**, **Treasury Disbursing Office**, and **Intra-Governmental Transactions** initiatives.

By working to implement these FM initiatives and achieve the FM Functional Strategy goals, the FM community will transform to a data-first culture and add significant strategic value to DoD decision-making. A "data-first" culture places strong emphasis upon aggregation and cultivation of prioritized data and analytics needed by leadership and staff to manage the organizational business environment in achieving its defined goals and objectives. Leveraging the power of data allows FM leaders to transform the organization's ability to predict outcomes, plan, and respond appropriately. Not only will this radically enhance enterprise decision-making, it will also significantly enrich the FM function's ability to contribute strategic value to the Department.

ENTERPRISE RESOURCE PLANNING SYSTEMS

The ERP systems are integral to implementing the FM business process improvements, achieving the planned target environment and reductions in the number of legacy systems, and enabling a sustainable audit environment. The ERPs provide a broad range of functionality to support DoD business operations in areas such as financial management, supply chain management, logistics, and human resource management. Some ERPs are fully fielded while others are in a state of development and deployment.

Combat Engineer Paratroopers from across the 82nd Airborne Division train for the Best Sapper competition, February 12, 2020, on Fort Bragg, North Carolina.

PHOTO CREDIT: Army Sgt. Cody D.J. Parsons

Department of the Army

The General Fund Enterprise Business System (**GFEBS**) is a fully deployed General Fund accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS is a web-based ERP solution that uses commercial off-the-shelf (COTS) business enterprise software to compile and share accurate, up-to-date financial and accounting data.

The Logistics Modernization Program (**LMP**) is a fully deployed system that is one of the world's largest integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the national-level logistics support solution. By improving both the systems and the processes associated with managing the Army's supply chain at the national and installation levels, LMP allows for planning, forecasting, and rapid order fulfillment to supply lines. It also improves distribution, reduces theater footprint (e.g., required storage space), and ensures the warfighter is equipped and ready to respond to present and future threats.

Global Combat Support System – Army (**GCSS-A**) is a fully-deployed acquisition system that provides enterprise-wide

Department of the Army (Continued)

visibility into various logistic areas and is a key enabler for the Army in achieving auditability. GCSS-A subsumed the outdated Standard Army Management Information Systems (STAMIS) that were not financially compliant and integrated about 40,000 local supply and logistics databases into a single, enterprise-wide authoritative system. GCSS-A integrates tactical logistics enterprise information for leaders and decision-makers to provide a single maneuver sustainment picture to manage combat power. GCSS-A provides the warfighter with supply, maintenance, property accountability, integrated materiel management center, management functionality, and support for financial processes. The enterprise system is the key component for the Army Enterprise strategy for compliance with federal financial management and reporting requirements

Integrated Personnel Pay System – Army (**IPPS-A**) is an ERP software solution designed to deliver an integrated personnel and pay capability for Army military personnel. To achieve this, the Army will incrementally build and deploy IPPS-A in four primary Releases. Once fully deployed, IPPS-A will provide the Army with an integrated, multi-component personnel and pay system that streamlines Army HR processes, enhances the efficiency and accuracy of Army personnel and pay procedures, and improve support to soldiers and their families. IPPS-A will improve internal controls to prevent erroneous military payments and loss of funds.

Department of the Navy

Navy ERP is a fully deployed integrated enterprise business system that provides streamlined financial accounting, acquisition, and supply chain management to the Navy's systems commands. Navy ERP is the Department of the Navy financial system of record that uses sophisticated business management software to streamline the Navy's financial and supply chain management. The integration of financial and supply solutions on a single platform provides real-time data access and decision support to the Navy Enterprise.

Global Combat Support System – Marine Corps (**GCSS-MC**) is a fully deployed system that serves as the Marine Corps' current official Accountable Property System of Record and logistics system, providing supply, maintenance management, inventory and equipment accountability, and rapid equipment task organization capabilities. As the Marine Corps' primary logistics system and centerpiece of the logistics modernization, GCSS-MC provides advanced expeditionary logistics capabilities and functionality to ensure future combat efficiency. Additionally, GCSS-MC executes the Acquire-to-Require, Plan-to-Stock, and Procure-to-Pay business mission functions, ensuring resources are effectively managed to optimize mission success and enable the warfighter.

Navy Personnel and Pay System (NP2) is designed to combine the military pay and personnel functions into one seamless COTS system by streamlining existing personnel and pay systems and processes, providing an adaptable solution that meets the complex needs of Sailors, HR personnel, and Navy leaders. Once fully implemented, NP2 will provide a platform for future initiatives such as improved marketplace-style detailing, enhanced performance evaluations and management, targeted compensation (e.g., bonuses), and automation of time-consuming administrative functions. By streamlining processes and systems, the implementation of NP2 will improve the speed, accuracy, and quality of personnel and pay services.

Warrant Officer Bryant Fair, a student in the Warrant Officer Basic Course (WOBC), negotiates the Endurance Course at Marine Corps Base Quantico, Virginia, February 20, 2020.

PHOTO CREDIT: Marine Corps Warrant Officer Bryan Nygaard

Department of the Air Force

The Defense Enterprise Accounting and Management System (DEAMS) is a partially deployed enterprise system that utilizes a COTS software suite to provide accurate and timely financial information using standardized business processes in compliance with applicable federal laws, regulations, and policies. DEAMS is the core accounting and financial management solution and the financial foundation for all enterprise business system modernization efforts across the Air Force General Fund and Space Force.

Air Force Integrated Personnel and Pay System (**AF-IPPS**) is a comprehensive, self-service, web-based solution currently in development that integrates personnel and pay processes into one system and maintains an official member record throughout an Airman's career. AF-IPPS is designed to be an audit-compliant financial management system that will enhance general and application controls.

Other Defense Organization ERPs

The Defense Agencies Initiative (**DAI**) is a partially deployed enterprise system dedicated to addressing financial management improvements through standard end-to-end business processes delivered by COTS software. Currently, DAI provides Budget-to-Report, Proposal-to-Reward, Cost Management, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, and Hire-to-Retire capabilities for Fourth Estate organizations (i.e., OSD, Defense Agencies, and DoD Field Activities).

The DAI Enterprise Business System (EBS) uses a COTS product to manage the Defense Logistics Agency's (DLA) supply chain management business. EBS also includes Electronic Procurement, Real Property, Inventory Materiel Management and Stock Positioning, and Energy Convergence modules, providing DLA leadership with the tools to respond to new challenges and trends.

The U.S. Air Force and the Qatari air forces fly in formation over Doha, Qatar, August 24, 2020.

Photo credit: Air Force Staff Sgt. Justin Parsons

LEGAL COMPLIANCE

Antideficiency Act (ADA)

The Antideficiency Act, which is codified in **31 U.S.C. §§1341(a)(1)**, **1342**, and **1517(a)**, stipulates that federal agencies may not obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations; accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation. An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment).

To enhance knowledge and improve compliance with ADA requirements, the Department leverages the **DoD FM Certification Program**, sponsored by OUSD(C), which requires the FM workforce to complete competencies and other specific courses (including fiscal law training requirements) that relate to the ADA and various other FM topics. Additionally, in keeping with the reporting requirements for violations of the Act under **31 U.S.C. §1351**, the Department maintains a close cooperation with the Military Departments and Defense Agencies as they investigate suspected ADA violations. Confirmed ADA violations are reported to the President through the Director of the OMB, Congress, and the **Comptroller General** of the United States.

During FY 2020, the Department reported one violation totaling $34.9 million in which the Department violated the purpose rule by inappropriately obligating and expending O&M funds, rather than RDT&E funds, to develop an information technology tool. To prevent a recurrence of this type of violation, the Department issued guidance to increase oversight and establish more strict procedural reviews of contract requirements at the office in which the violation occurred. Further information about the Department's reported ADA violation and the remedial actions taken are included in GAO's annual compilation of **Antideficiency Act Reports**.

Field Grade Officers assigned to Vandenberg Air Force Base prepare to commission into the United States Space Force prior to the USSF FGO Induction Ceremony October 16, 2020, at Vandenberg AFB, Calif.

PHOTO CREDIT: U.S. Staff Sgt. Brittany Murphy

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

The Coronavirus Aid, Relief, and Economic Security Act (**CARES Act**) was signed into law on March 27, 2020 in response to the COVID-19 pandemic. The CARES Act provided economic stimulus support in the form of direct cash payments to individuals; increased unemployment benefits; forgivable paycheck protection loans to small businesses; financial support for American industry; and assistance to state, local, and tribal governments. The provisions of the CARES Act additionally provided $10.6 billion to the Department in emergency supplemental funding to prevent, prepare for, and respond to the COVID pandemic.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (continued)

On April 10, 2020, OMB issued **Memorandum M-20-21**, Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19)". In balancing speed with transparency, OMB directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. Further, OMB instructed agencies to consider three core principles: mission achievement by using data and evidence to meet program objectives, expediency in issuing awards to meet crucial needs, and transparency and accountability to the public.

Under the CARES Act, federal agencies are required to submit a monthly report to the appropriate congressional committees that details how the supplemental funds were used. To fulfill this requirement, the Department issued a number of memorandams to the DoD FM community and Departmental leaders instructing the weekly cost reporting of CARES Act funding. On a weekly basis, over 100 million transactions from twenty-three general ledger accounting systems were provided and populated into Advana to facilitate compilation, oversight and monitoring, and data analytics. In compliance with the OMB reporting timeline, the Department began monthly reporting in July 2020, beginning with the June 2020 reporting period.

Digital Accountability and Transparency (DATA) Act

The Digital Accountability and Transparency Act of 2014 (**DATA Act**) amended the Federal Funding Accountability and Transparency Act of 2006 (**FFATA**) to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on **USAspending.gov**. The goal of the law is to improve the ability of the public to track and understand how the Federal Government is spending taxpayer funds. The required information includes the amount of funding the Department receives; the source of the funding (e.g., appropriations, transfers, and carry-forward balances from prior fiscal years); plans for spending the funding; and the actual use of the funding, to include the disclosure of the entities or organizations receiving federal funds through contract and financial assistance awards.

In April 2020, OMB **Memorandum M-20-21** altered the reporting requirement of DATA Act obligation and outlay data from quarterly to monthly reporting, effective with the June reporting period, to improve the timeliness and transparency of public reporting. The reporting of financial and award data related to contracts and financial assistance awards did not change, however, and are still reported quarterly to Treasury for display on USAspending.gov. As of June 2020, the Department reported the alignment of over $47.9 billion across over 740,300 active contract and assistance awards (approximately 79% of the population) through DATA Act certification. The Department is fully committed to enabling transparency into the use of the taxpayer dollars entrusted to it as the Department continues to reform and modernize its operations for greater affordability, accountability, and performance.

Federal Civil Penalties Inflation Adjustment Act

On November 2, 2015, the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (**the 2015 Act**)—which further amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (**Inflation Adjustment Act**, **28 U.S.C. §2461, note**)—was signed into law to improve the effectiveness of civil monetary penalties and maintain their deterrent effect. The 2015 Act requires federal agencies to report the most recently published inflationary adjustments to civil monetary penalties in order to ensure that civil penalties under their purview are periodically adjusted.

The Department publishes information on these inflationary adjustments to the **Federal Register** separately for the adjustments related to the USACE and those related to the remainder of the Department. The implementation of the 2015 Act deters violations of law, encourages corrective action(s) of existing violations, and prevents waste, fraud, and abuse within the Department.

Additional information regarding the types of civil penalties within the Department's purview and their amounts is located in the Other Information section.

Payment Integrity Information Act (PIIA)

In accordance with the Payment Integrity Information Act of 2019 (**PIIA**) and OMB Circular No. A-123, **Appendix C**, the Department is required to report the status and recovery of improper payments to the President and Congress in the following program categories:

- Civilian Pay
- Commercial Pay
- Military Health Benefits
- Military Pay
- Military Retirement
- Travel Pay

PIIA defines improper payments as any payments that should not have been made or that were made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. The definition also includes any payment that was made to an ineligible recipient or for an ineligible good or service, goods or services not received, or when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

Each fiscal year, the DoD OIG reviews the Department's AFR and **PaymentAccuracy.gov** improper payment reporting to determine the Department's compliance with PIIA reporting requirements, and submits a report of their determination to the Secretary of Defense, the U.S. Senate **Committee on Homeland Security and Governmental Affairs**, the U.S. House of Representatives **Committee on Oversight and Reform**, and the Comptroller General of the United States. The results of the DoD OIG's FY 2020 determination of DoD payment integrity compliance will be available on the DoD OIG website at **https://www.dodig.mil/reports.html** in May 2021. Since FY 2016, the Department has demonstrated progress towards achieving all of the payment integrity measures evaluated in this review, in line with President's Management Agenda Cross-Agency Priority Goal 9, "**Getting Payments Right**" (see Figure 26).

Figure 26: DoD Payment Integrity Compliance Review Results

Fiscal Year	Published Payment Integrity Data in the AFR in Accordance with OMB Guidance	Conducted Risk Assessments, if required	Published Accurate Improper Payment Estimates	Published Corrective Action Plans	Published and Demonstrated Improvements to Meet Reduction Targets	Reported Improper Payment Rates Below 10 Percent
2016	X	X	X	X	X	✓
2017	X	✓	X	X	X	✓
2018	✓	✓	X	X	X	✓
2019	✓	✓	X	✓	X	✓

Legend
✓ **Compliant**
X **Not Compliant**

Preventing and recovering improper payments are among the top financial management priorities of the Department. Detailed information regarding payment integrity is located in the Other Information section.

Prompt Payment Act

The Prompt Payment Act (**PPA**) requires federal agencies to pay vendors on a timely basis and pay interest penalties when payments are issued past their due dates. DFAS complies with the PPA when applicable by statute and regulation, and within the terms of the contract. DFAS is responsible for consolidating interest data for the Department; however each DoD Component is responsible for capturing, validating, and explaining the results of their data. Established metrics are used to track payment timeliness and interest penalties for late payments.

Soldiers execute a simulated two-gun M777 Howitzer raid culminating with a live fire at Fort Hood, Texas, July 29, 2020.

PHOTO CREDIT: Army Maj. Marion Jo Nederhoed

The Department's goal is to average $90 or less in interest dollars paid per million PPA dollars disbursed on a monthly basis across all applicable contracts. During FY 2020, the average interest paid per million PPA dollars disbursed on a monthly basis was $93.25, which represents a $42.26 reduction from the average interest paid per million PPA dollars disbursed on a monthly basis in FY 2019.

The Department is continuing efforts to modernize the Procure-to-Pay (P2P) process through the standardization of electronic data interchange, or "handshakes." These efforts will improve the interoperability and integrity of the end-to-end P2P process, lead to more timely actions overall, and assist in further reducing the number of late payments by the Department.

FINANCIAL SECTION

PROVIDES A HIGH LEVEL OVERVIEW OF THE DEPARTMENT'S PROGRAMMATIC AND FINANCIAL PERFORMANCE

AN AVIATOR TRAILBLAZER

Few people are labeled the “first” at much in the U.S. military, but Navy Lt. j.g. Madeline G. Swegle is not your average sailor. As of July 31, 2020, she’s officially the Navy’s first Black female tactical air pilot, marking a significant milestone for naval aviation.

CLICK HERE FOR A LINK TO THE COMPLETE STORY

MESSAGE FROM THE PERFORMING THE DUTIES OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER

November 16, 2020

It is my privilege to join the Secretary of Defense in presenting the Department of Defense (DoD) financial statements for Fiscal Year (FY) 2020. The objective of the financial statements and accompanying information is to provide a comprehensive view of the activities undertaken in support of the Department's mission to deter war and protect national security. Further, these statements support our commitment to demonstrating transparency and accountability to Congress and the American public. This is the third consecutive year the Department underwent a financial statement audit performed by various independent public accounting firms and the DoD Office of Inspector General. These audits have provided great value to the Department by identifying multiple opportunities for improvement in how we execute our budget and invest the resources that Congress and the American taxpayers entrusted to us.

Our approach to obtaining an agency-wide unmodified audit opinion is to make steady progress towards increasing the number of DoD components with unmodified audit opinions, and to reduce the number and impact of the material weaknesses. This year, I am pleased to report that we successfully downgraded two agency-wide material weaknesses, Legal Contingencies and Reconciliation of Net Cost of Operations to Outlays, as a result of corrective actions implemented. In addition, in December 2020 we are hopeful that the Defense Information Systems Agency Working Capital Fund will obtain its first unmodified audit opinion, and we are hopeful the Navy General Fund and Working Capital Fund will downgrade following component-level material weaknesses: Environmental Disposal Liabilities, Contingent Legal Liabilities, and Contract Authority. Although not every Service or agency was able to accomplish these goals, the entire Department made progress in correcting audit findings through the execution of approximately 800 corrective action plans and successful remediation of more than 400 audit findings from the FY 2019 audit. Completing corrective actions helps provide operational value and support to DoD personnel in carrying out their important missions by addressing issues such as those that threaten the security of our financial management systems and hamper our ability to capture, record, and report financial activity.

In addition to the bottom up effort described above, we must replace the antiquated and stove-piped business practices and systems that led to many of our agency-wide material weaknesses. This requires the Department to evolve from the existing consensus-based incremental change paradigm, to one that drives transformation and modernization. We are currently working to embody the "Financial Management (FM) of the Future" vision, which articulates the future of DoD FM as a world class leader in business transformation and reform. The size and complexity of the Department's business operations require this vision to embrace an enterprise mindset that understands the importance of producing accurate and complete financial information in timely manner to empower data-driven decision-making. As such, many of the audit corrective action plans that we develop focus on the implementation of enterprise solutions, rather than quick fixes for a single DoD component, system, or issue.

Like many other organizations, our work this year was complicated by the significant challenges related to the Coronavirus Disease 2019 (COVID-19) pandemic. The challenges necessitated adjustments to our normal audit process, such as facilitating virtual, rather than in-person, auditor site visits, to safeguard the health and well-being of DoD personnel while maintaining our audit responsibility.

Additionally, we continue to face impediments in addressing material weaknesses identified by the auditors, such as system limitations and process constraints that prevent our ability to provide transaction-level data and supporting documentation that complies with accounting and auditing standards. We continue to address these challenges through a variety of mitigation strategies including retiring outdated financial systems in favor of modern Enterprise Resource Planning systems, revising DoD financial management policies to align with authoritative guidance, and implementing emerging technologies (such as artificial intelligence, machine learning, and data analytics platforms) across the Department.

I give my thanks to the continued support received from Congress and the American public for entrusting us with the resources necessary to protect our great Nation. Additionally, I thank the civilian employees and Military Service members of our financial and functional communities for their hard work and dedication in providing accountability for our resources, addressing audit findings, seeking opportunities for greater efficiency, and improving our business processes. The progress that the Department continues to make in all of these challenging areas would not be possible without their efforts. I look forward to working through future audits as we improve the quality and reliability of our financial information, as well as the efficiency and effectiveness of our operations.

Thomas W. Harker
Performing the Duties of the Under Secretary
of Defense (Comptroller)/Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

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

December 18, 2020

MEMORANDUM FOR SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2020 and FY 2019 Basic Financial Statements (Project No. D2020-D000FE-0050.000, Report No. DODIG-2021-028)

We are providing the subject report to be published in the FY 2020 Agency Financial Report in conjunction with the FY 2020 and FY 2019 basic financial statements. On December 11, 2020, DoD management notified us that they would need to restate the FY 2020 basic financial statements that were published in the FY 2020 Agency Financial Report on November 16, 2020. On December 16, 2020, DoD management provided an updated "preliminary final" version of the FY 2020 Agency Financial Report which included the restated basic financial statements. The "preliminary final" version was used to re-perform our reviews of financial statements and disclosures impacted by the restatement. The impacted statements and disclosures included:

- the Statement of Net Cost,
- the Statement of Changes in Net Position,
- Note 19,
- Note 20,
- Note 24,
- Note 28,
- Note 30, and
- Note 31.

We have amended our Independent Auditor's report to include a dual date and to indicate that a supplementary review was performed.[1] Our review did not change any of the conclusions previously reached or used in forming our opinion on the basic

[1] The auditor should dual date the audit report when subsequently discovered facts become known to the auditor after the report date to indicate that the auditor's procedures subsequent to the original report date is limited solely to the revision of the basic financial statements.

financial statements that were published on November 16, 2020. As a result, the audit report includes our disclaimer of opinion on the basic financial statements and our required Reports on Internal Control Over Financial Reporting and Compliance With Provisions of Applicable Laws and Regulations, Contracts, and Grant Agreements. We are issuing our disclaimer of opinion to accompany the DoD FY 2020 and FY 2019 basic financial statements; therefore, this audit report should not be disseminated separately from those statements.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

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

Attachment
Page **2** of **2**

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

November 16, 2020, except for restatements,
as to which the date is December 18, 2020[1]

MEMORANDUM FOR SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2020 and FY 2019 Basic Financial Statements (Project No. D2020-D000FE-0050.000, Report No. DODIG-2021-028)

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the DoD Agency-Wide consolidated balance sheet, consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and related note disclosures as of September 30, 2020, and September 30, 2019.[2] These statements are referred to as the basic financial statements in this report. The basic financial statements are included in the Agency Financial Report.

Management's Responsibility for the Agency Financial Report

DoD management is responsible for the Agency Financial Report. Specifically, management is responsible for: (1) preparing basic financial statements that conform with accounting principles generally accepted in the United States (GAAP); (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that the controls met the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); (3) ensuring that financial management systems substantially comply with Federal Financial Management Improvement Act

[1] DoD management restated the Statement of Net Cost, the Statement of Changes in Net Position, Note 19, Note 20, Note 24, Note 28, Note 30, and Note 31 as a result of an adjustment processed on December 11, 2020. We performed reviews of these restatements, and these reviews did not impact the conclusions previously presented in this report.

[2] Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, November 1990.

of 1996 (FFMIA) requirements; and (4) complying with provisions of applicable laws and regulations.[3]

Auditor's Responsibility

The DoD Office of Inspector General is responsible for auditing and expressing an opinion on the basic financial statements. We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and Office of Management and Budget (OMB) Bulletin No. 19-03.[4] However, because of the matters described in the "Basis for Disclaimer of Opinion" section of this report, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

OMB Bulletin No. 19-03 identifies DoD components that are required to undergo financial statement audits. Auditors issued disclaimers of opinion on the following components' financial statements that were required to undergo audit.

- Department of the Army General Fund
- U.S. Marine Corps General Fund
- U.S. Navy General Fund
- Department of the Air Force General Fund
- Department of the Army Working Capital Fund
- Department of the Navy Working Capital Fund
- Department of the Air Force Working Capital Fund

In addition to these required components, auditors issued disclaimers of opinion on the following component financial statements.

- Defense Health Program General Fund
- Defense Information Systems Agency General Fund

---

[3] Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982," September 1982 and Public Law 104-208, "Federal Financial Management Improvement Act of 1996," September 1996.

[4] U.S. Government Accountability Office, GAO-18-568G, "Government Auditing Standards," July 2018 and OMB Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," August 2019.

- Defense Logistics Agency General Fund, Working Capital Fund, and Transaction Fund
- U.S. Special Operations Command General Fund
- U.S. Transportation Command Transportation Working Capital Fund

When combined, the components which received disclaimers of opinion on their financial statements, to include the required reporting components and the additional components listed above, are material to the basic financial statements. As a result, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on the basic financial statements.

We performed audit procedures at the agency-wide level, reviewed Notices of Finding and Recommendation, and considered the results of component audits to identify material weaknesses and significant deficiencies in internal control over financial reporting that affected the DoD as a whole. These material weaknesses and significant deficiencies limited the DoD's ability to produce reliable basic financial statements and contributed to our audit opinion.

We considered the disclaimers of opinion on the component financial statements a scope limitation in forming our conclusions on the basic financial statements. Accordingly, we did not perform all the auditing procedures required by GAGAS and OMB Bulletin No. 19-03 to determine whether material amounts on the basic financial statements were presented fairly. Therefore, our work may not have identified all issues that could affect the basic financial statements.

Disclaimer of Opinion

Because of the significance of matters described in the "Basis for Disclaimer of Opinion" section, we could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the basic financial statements. Thus, the basic financial statements may contain undetected misstatements that are both material and pervasive.

Emphasis of Matter

The Security Assistance Accounts (SAAs) include balances from the security assistance programs for which the DoD has responsibility, including Foreign Military Sales, the Special Defense Acquisition Fund, Foreign Military Financing, and International Military Education and Training. The Defense Security Cooperation Agency is responsible for issuing the SAA basic financial statements, which are consolidated into the

Government-wide Financial Statements. DoD management included the SAA basic financial statements in an appendix to the Agency Financial Report and included disclosures within the DoD Agency-Wide Basic Financial Statements to describe the relationship between the DoD and the SAAs. However, DoD management did not represent that the SAA information was complete and accurate. In addition, the SAA financial statements are not scheduled to undergo a full financial statement audit until FY 2022. Therefore, we did not perform audit procedures to determine if the disclosures were appropriate or review the SAA basic financial statements included in the Agency Financial Report. As a result, we did not consider this information when forming our audit opinion.

In addition, DoD management provided a "preliminary final" Agency Financial Report on November 16, 2020. Previous versions of the Agency Financial Report were substantially incomplete. The timing of receiving the preliminary final Agency Financial Report limited our ability to complete its thorough review. However, during our review of the basic financial statements included in the preliminary final Agency Financial Report, we noted instances of non-compliances between the basic financial statements and applicable sections of OMB Circular No. A-136.[5] Specifically, Note 9, Note 13, Note 15, Note 19, Note 25, Note 26, and Note 29 did not contain required disclosures in accordance with OMB Circular No. A-136.[6]

In Note 28, DoD management restated the FY 2019 basic financial statements to correct errors in General Property, Plant and Equipment (net), Operating Materials and Supplies, Accounts Payable, Unexpended Appropriations, Cumulative Results of Operations – Other Funds, and Budgetary Resources. We considered these restatements during our audit; however, the restatements did not affect the overall disclaimer of opinion on the FY 2020 or FY 2019 basic financial statements. As a result, we did not modify our audit opinion.

Finally, in the Agency Financial Report, DoD management referenced information on websites or other forms of interactive data. We did not subject any of these websites or interactive data to auditing procedures, and accordingly, we do not express an opinion or provide any assurance on them.

---

[5] OMB Circular No. A-136, "Financial Reporting Requirements," August 27, 2020.

[6] Note 9, "Property, Plant and Equipment, net;" Note 13, "Military Retirement and Other Federal Employment Benefits;" Note 15, "Other Liabilities;" Note 19, "Disclosures Related to the Statement of Net Cost;" Note 25, "Public-Private Partnerships;" Note 26, "Disclosure Entities and Related Parties;" and Note 29, "COVID-19 Activity."

5

Other Information in the Agency Financial Report

In addition to the basic financial statements, DoD management presented Management's Discussion and Analysis, Required Supplementary Information, and Other Information for additional analysis as part of its Agency Financial Report. We performed our audit to form an opinion on the basic financial statements as a whole. Therefore, we do not express an opinion or provide any assurance on the other information presented in the Agency Financial Report. However, based on our limited review, we did not find any material inconsistencies between the information presented in these sections and the basic financial statements.

Report on Compliance With Provisions of Applicable Laws and Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements and compliance with OMB regulations and audit requirements for financial reporting. We compiled the results from the audits of the components to determine whether the DoD complied with provisions of applicable laws and regulations, contracts, and grant agreements.

However, it was not our objective to provide an opinion on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. Its personnel provided technical comments that we incorporated, as appropriate.

This report will be made publicly available under section 8M, paragraph (b)(1)(A), of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the Government Accountability Office; the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer; DoD management; and the DoD Office of Inspector General. This report is not intended for, and should not be used by, any other audience.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

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

Attachment:
As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the internal control over financial reporting to determine appropriate auditing procedures for expressing an opinion on the basic financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on the internal control over financial reporting.

Management Responsibilities

DoD management is responsible for implementing and maintaining effective internal control, including providing reasonable assurance that DoD personnel recorded, processed, and summarized accounting data properly; met the requirements of provisions of applicable laws and regulations, contracts, and grant agreements; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

The purpose of our audit was not to express an opinion on internal control over financial reporting, and we do not express such an opinion. However, we identified 26 material weaknesses and four significant deficiencies by performing audit procedures at the agency-wide level, reviewing auditor-issued Notices of Finding and Recommendation, and considering component audit results. These material weaknesses and significant deficiencies could adversely affect DoD financial operations.

Identified Material Weaknesses

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 basic financial statements in a timely manner. The following is a description of each of the 26 material weaknesses we identified.

Legacy Systems. DoD management defines legacy systems as systems that are scheduled for retirement within 36 months. The FFMIA requires that the DoD implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transactional level. The DoD owns and utilizes over 250 systems that DoD management defines as audit-relevant, which include over 30 legacy systems. However, multiple components identified systems as legacy systems that were not categorized as such by DoD management; therefore, DoD management and components did not identify legacy systems consistently. In addition, multiple components used legacy systems during FY 2020 that did not comply with the FFMIA. For example, components used multiple systems that did not capture transaction-level detail. In an effort to mitigate the risk of using legacy systems, DoD management stated that it had implemented a plan to aggressively retire and replace the legacy systems. However, during FY 2020, DoD management extended the retirement date for five systems. Additionally, some systems used did not comply with the FFMIA, and these systems will not be retired until at least FY 2030. The continued use of FFMIA non-compliant systems inhibits the DoD's ability to produce auditable basic financial statements.

Configuration Management and Security Management. National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, and the Government Accountability Office Green Book, hereinafter referred to as "Green Book," require the DoD to design and implement configuration management and security management controls.[7] These controls focus on establishing and maintaining the integrity of information systems, and require the development, documentation, and implementation of configuration management and security management policies, procedures, and plans. However, multiple components lacked effective configuration management and security management controls for key financial systems. In addition, multiple components did not have formalized and comprehensive policies and procedures for configuration management and security management. The lack of effective controls and formalized policies and procedures increases the risk of unauthorized usage, modification, or disclosure of DoD information systems, which could result in inaccurate financial data within the basic financial statements. As a result, there is an increased risk that balances presented in the basic financial statements may be materially misstated.

Access Controls. NIST SP 800-53 and the Green Book require the DoD to design and implement access controls. Access controls provide reasonable assurance that only authorized individuals have access to computer resources such as data, equipment, and facilities. Access controls also ensure that roles for authorized users are reasonable.

---

[7] National Institute of Standards and Technology, Special Publication 800-53, Revision 4, "Security and Privacy Controls for Federal Information Systems and Organization," April 2013 and the Government Accountability Office Green Book, "Standards for Internal Control in the Federal Government," September 2014.

Attachment
Page **2** of **18**

However, multiple components did not design and implement effective access controls for various key financial systems, and they did not identify all relevant risks or have documented procedures to ensure proper access controls. Additionally, DoD management did not develop an overarching policy or an authoritative list to identify and remove terminated or transferred users. Without proper access controls over key financial systems, the DoD could compromise the confidentiality, integrity, or availability of financially relevant data, which increases the risk that amounts presented in the basic financial statements may be materially misstated.

Segregation of Duties. NIST SP 800-53 and the Green Book require the DoD to design and implement controls to provide reasonable assurance that incompatible duties are segregated. However, multiple components did not design and implement effective segregation of duties controls for various key financial applications. Specifically, the components did not develop a process to properly identify conflicting roles or segregate key function roles. Additionally, the components either identified segregation of duties controls as low risk or did not collaborate with all stakeholders to ensure effective segregation of duties controls were implemented. The lack of effective segregation of duties controls could increase the risk of inappropriate access to systems to process transactions, which could result in inaccurate financial data, expose the systems to security risks, or allow for fraudulent activity. The inability to effectively implement segregation of duties controls increased the risk that line item balances in the basic financial statements may be materially misstated.

Universe of Transactions. OMB Bulletin No. 19-03 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements. However, multiple components were unable to provide transaction-level populations supporting material financial statement line items. Additionally, the Defense Finance and Accounting Service (DFAS) and the components were unable to reconcile the information presented within the trial balances to underlying transaction-level detail. Specifically, multiple components performed reconciliations at a summary level, rather than the transaction-level, and did not always perform these reconciliations in a timely manner. Without a complete universe of transactions, the DoD and its components could not verify the completeness and accuracy of data reported on their respective basic financial statements.

Fund Balance With Treasury. For FY 2020, the DoD reported a Fund Balance With Treasury balance of $637.2 billion. Statement of Federal Financial Accounting Standards (SFFAS) No. 1 requires the DoD to record Fund Balance With Treasury as the aggregate amount of funds in the DoD's accounts with Treasury for which the DoD is authorized to make expenditures and pay liabilities.[8] SFFAS No. 1 and the Treasury Financial Manual (TFM) require the DoD to reconcile its Fund Balance With Treasury and explain any discrepancies between balances reported by the DoD and the U.S. Treasury to ensure the integrity and accuracy of the DoD and Government-wide Financial Statements.[9] However, the DoD and its components did not have effective processes and controls for reconciling their Fund Balance With Treasury. As a result, the DoD was unable to ensure the completeness and accuracy of its Fund Balance With Treasury. The lack of effective controls over Fund Balance With Treasury increased the risk that balances in the basic financial statements may be materially misstated.

Suspense Accounts. The TFM defines suspense accounts as accounts used to temporarily hold transactions that belong to the Government while waiting for information that will allow the transactions to be matched to a specific receipt or expenditure account.[10] The DoD Financial Management Regulation (FMR), volume 12, chapter 1, states that suspense accounts may be used in accordance with Treasury guidance if transactions are reclassified to the correct line of accounting and properly reported in the accounting system within 60 days of the transaction entering a suspense account.[11] The DoD FMR, volume 3, chapter 11 also states that agencies may request to discontinue transaction research if certain criteria are met and properly approved by the funds holder, Military Department Assistant Secretaries Financial Management and Comptroller, or Defense Agency Comptroller.[12] However, DFAS and the components lacked the controls necessary to sufficiently monitor funds in suspense accounts and to research these transactions to clear account variances in accordance with the 60-day requirement. In addition, DFAS was unable to properly attribute suspense account transactions to the appropriate component because multiple components shared the

---

[8] FASAB, "Handbook of Federal Accounting Standards and Other Pronouncements [FASAB Handbook]," and SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 1993, as amended.

[9] Treasury Financial Manual, volume 1, part 2, chapter 5100, "FBWT."

[10] TFM, volume 1, part 2, chapter 1500, "Description of Accounts Relating to Financial Operations."

[11] DoD Regulation 7000.14-R, "DoD Financial Management Regulation (DoD FMR)" volume 12, chapter 1, "Funds."

[12] DoD FMR, volume 3, chapter 11, ""Unmatched Disbursements, Negative Unliquidated Obligations, and In-transit Disbursements."

same suspense accounts. DFAS lacked the appropriate authorizing regulation or guidance to approve the discontinuation of research and write offs of suspense transactions. These control deficiencies could result in an increased risk that the balance of the DoD's suspense accounts in the basic financial statements may be materially misstated.

Inventory and Related Property. For FY 2020, the DoD reported an Inventory and Related Property balance of $310.2 billion. SFFAS No. 3 requires the DoD to value its inventory on the basis of historical cost or on a basis that reasonably approximates historical cost.[13] SFFAS No. 48 amends SFFAS No. 3, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of Inventory and Related Property.[14] However, multiple components did not account for Inventory and Related Property according to SFFAS No. 3, or the alternative valuation methods allowed by SFFAS No. 48, and components could not produce documentation supporting the valuation of their inventory. In addition, multiple components were unable to substantiate the existence and completeness of Inventory and Related Property reported on their basic financial statements. Specifically, they did not have controls and procedures for inventory counts, movement of inventory, or in-transit inventory. As a result, the DoD was unable to support a material portion of its Inventory and Related Property balance, and there is an increased risk that the balances presented in the basic financial statements may be materially misstated.

Operating Materials and Supplies (OM&S). For FY 2020, the DoD reported an OM&S balance of $200.5 billion. SFFAS No. 3 requires the DoD to value its OM&S on the basis of historical cost or on a basis that reasonably approximates historical cost. SFFAS No. 48 amends SFFAS No. 3, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. However, multiple components did not account for OM&S according to SFFAS No. 3, or the alternative valuation methods allowed by SFFAS No. 48. In addition, SFFAS No. 3 requires that OM&S be categorized as (1) OM&S held for use, (2) OM&S held in reserve for future use, or (3) excess, obsolete, and unserviceable. However, multiple components did not have procedures to accurately identify and value the excess, obsolete, and unserviceable material reported on their basic financial statements. Overall, the components did not design, document, or implement policies and procedures to identify and properly value

[13] FASAB Handbook, SFFAS No. 3, "Accounting for Inventory and Related Property," October 1993.

[14] FASAB Handbook, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," January 2016.

OM&S inventory, including excess, obsolete, and unserviceable material, in accordance with SFFAS standards. In addition, multiple components were unable to substantiate the existence and completeness of OM&S reported on their basic financial statements. As a result, there is an increased risk that the OM&S balances in the basic financial statements may be materially misstated.

General Property, Plant, and Equipment (PP&E). For FY 2020, the DoD reported a General PP&E balance of $790.5 billion. SFFAS No. 6 requires the DoD to value its General PP&E on the basis of historical cost or on a basis that reasonably approximates historical cost.[15] SFFAS No. 50 amends SFFAS No. 6, and allows the DoD to use a one-time alternative valuation method for establishing the opening balances of General PP&E in the same reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented in accordance with GAAP.[16] However, as of September 30, 2020, the DoD had not completed its implementation of SFFAS No. 50 to establish opening balances of its General PP&E, and did not have sufficient procedures to account for its General PP&E in accordance with SFFAS No. 6. In addition, multiple components were unable to substantiate the existence and completeness of General PP&E reported on their basic financial statements. Because the DoD and its components cannot accurately value or account for its General PP&E, there is an increased risk that the General PP&E balances in the basic financial statements may be materially misstated.

Real Property. The DoD FMR, volume 4, chapter 24, requires that components properly recognize, account for, and report their real property and accumulated depreciation on the appropriate financial statements.[17] In FY 2020, DoD management required that all real property be reported on the basic financial statements of the military department or Washington Headquarters Services (installation host) that owns or operates the installation where a real property asset is located. However, not all components were able to fully transfer financial responsibility for their real property assets to the installation hosts by September 30, 2020, as required. In addition, multiple components made transfers without resolving outstanding audit findings that directly related to unsupported valuations and incomplete listings of real property assets. As a result, there is a risk that the real property balances transferred to

---

[15] FASAB Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 1995, as amended.

[16] FASAB Handbook, SFFAS No. 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 2016.

[17] DoD FMR, volume 4, chapter 24, "Real Property."

installation hosts were unsupported, incomplete, or incorrectly valued. These unresolved audit findings impact the ability of the installation hosts to properly account for these assets. Unsupported real property balances increased the risk that the real property balance in the basic financial statements may be materially misstated.

Government Property in the Possession of Contractors. SFFAS No. 6 requires that property and equipment in the possession of contractors, or acquired on behalf of the Government for use in accomplishing a contract, be considered Government property. The DoD must account for this property, regardless of who has possession. However, the DoD lacked policies, procedures, and supporting documentation for the acquisition, disposal, and inventory processes related to Government property in the possession of contractors. For example, not all DoD contract terms and conditions incorporated standard inventory management policies, procedures, and metrics. In addition, multiple components were unable to substantiate the existence and completeness of Government property in possession of contractors reported on their basic financial statements. As a result, there is an increased risk that the balances of Government property in the possession of contractors in the basic financial statements may be materially misstated.

Joint Strike Fighter Program. The Joint Strike Fighter is a multiservice and multinational acquisition to develop and field next-generation strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. However, the DoD did not account for and manage Joint Strike Fighter Program Government property, or record the property in an accountable property system of record. As a result, the DoD did not report Joint Strike Fighter Program assets on its basic financial statements. The omission of the Joint Strike Fighter program from the basic financial statements and inability to provide documentation supporting the value of the program indicate that there are material failures within internal control for recording joint programs within the DoD. As a result, there is an increased risk that the balances in the basic financial statements may be materially misstated.

Military Housing Privatization Initiative (MHPI). In FY 2020, the DoD reported an MHPI-related Other Investments balance of $3.5 billion in cash invested. The Financial Accounting Standards Board requires the DoD to report real property ownership transfers to MHPI private entities as increases to Other Investments, and private entity profits and losses allocated to the DoD as changes to Other Investments.[18] However,

[18] Accounting Standards Board, Accounting Standards Codification 323, as updated through November 2020.

Attachment
Page **7** of **18**

the DoD did not report an estimated $8.8 billion of real property transferred to MHPI private entities as increases to Other Investments, or reduce Other Investments by cumulative annual profits and losses allocated to the DoD based on its ownership interest. Additionally, SFFAS No. 47 requires the DoD to determine whether each MHPI private entity should be reported as a consolidated entity, disclosure entity, or related party, and SFFAS No. 49 requires certain disclosures for MHPI private entities.[19] However, the DoD has not completed its analysis to determine the appropriate reporting of MHPI under SFFAS No. 47 and did not provide complete and accurate information as required under SFFAS No. 49. Overall, the DoD lacked GAAP-compliant policies and procedures to account for and report the MHPI program. Ineffective controls over MHPI increase the risk that balances in the basic financial statements may be materially misstated.

Accounts Payable. For FY 2020, the DoD reported a non-Federal Accounts Payable balance of $36.1 billion. SFFAS No. 1 states that accounts payable are amounts the DoD owes to other entities for receipt of goods and services, progress in contract performance, or rent. However, components did not have sufficient documentation to support the existence and completeness of their Accounts Payable balances. These components did not have sufficient policies, procedures, and control over their methodology for accruing payables, which increases the risk of unsupported transactions. As a result, there is an increased risk that the Accounts Payable balance in the basic financial statements may be materially misstated.

Environmental and Disposal Liabilities. For FY 2020, the DoD reported an Environmental and Disposal Liabilities balance of $75.0 billion. SFFAS No. 5 defines "liability" as a probable future outflow or other sacrifice of resources as a result of past transactions or events.[20] Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs.[21] However, the DoD lacked formal policies, procedures, and supporting documentation to substantiate the completeness and accuracy of its Environmental and Disposal Liabilities. As a result, there is an increased risk that the Environmental and Disposal Liabilities balances in the basic financial statements may be materially misstated.

---

[19] FASAB Handbook, SFFAS No. 47, "Reporting Entity," December 2014 and FASAB Handbook, SFFAS No. 49, "Public-Private Partnerships: Disclosure Requirements," April 2016.

[20] FASAB Handbook, SFFAS No. 5, "Accounting for Liabilities of The Federal Government," December 1995.

[21] FASAB Handbook, Federal Financial Accounting and Auditing Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," March 1998.

Attachment
Page **8** of **18**

Beginning Balances. SFFAS No. 48 defines beginning balances as account balances that exist at the beginning of the reporting period. These beginning balances are based on the closing balances of the prior period and reflect the effects of transactions that occurred, and accounting policies applied in prior periods. Multiple components did not have complete and accurate beginning balances on their basic financial statements. This occurred because components did not have historical data to support beginning balances on their basic financial statements or the ability to reconcile beginning balances to closing balances at the end of the reporting period. Without support to confirm the completeness and accuracy of beginning balances, there is an increased risk that the basic financial statements may be materially misstated.

Unsupported Accounting Adjustments. The Green Book requires that transactions are promptly and accurately recorded. Additionally, the DoD FMR, volume 4, chapter 2, states that DoD components must ensure that all adjustments are researched and traceable to supporting documents as instructed in the TFM, 2-5100. Supporting documentation is necessary to provide an audit trail. However, the DoD did not have effective controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems. For example, in the last two quarters of FY 2020, the DoD recorded more than 1,900 accounting adjustments totaling over $293 billion that lacked supporting documentation. In addition, components recorded manual and system-generated accounting adjustments that lacked appropriate approvals. Without effective controls over the recording of accounting adjustments, the DoD could not provide reasonable assurance that material misstatements were prevented, or detected and corrected, in the basic financial statements in a timely manner. As a result, there is an increased risk that balances in the basic financial statements may be materially misstated.

Intradepartmental Eliminations and Intragovernmental Transactions. According to the TFM, intragovernmental transactions result from business activities conducted between two Federal government entities, such as the DoD and Department of State.[22] The entities conducting business are called trading partners. The TFM further defines intradepartmental transactions as those occurring between two trading partners within the same entity; for example, the Army and Defense Logistics Agency are both DoD components. In order to properly present the balances on the basic financial statements, intradepartmental and intragovernmental transactions must be eliminated

[22] TFM, volume 1, part 2, chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," June 2020.

Attachment
Page **9** of **18**

during the financial statement preparation process. For proper eliminations to occur, it is essential that accurate DoD trading partner data is captured for intradepartmental and intragovernmental activity and balances. Specifically, the DoD must report its three-digit agency identifier and its trading partners' three-digit agency identifier on all intradepartmental and intragovernmental transactions. However, multiple DoD accounting systems were unable to capture the trading partner data required to eliminate intradepartmental and intragovernmental transactions. Without the proper elimination of trading partner transactions in the basic financial statements, there is a risk that the basic financial statements may be materially misstated.

Gross Costs. For FY 2020, the DoD reported a Gross Costs balance of $817.2 billion. SFFAS No. 4 states that the DoD should report the full costs of outputs in general purpose financial reports and reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations.[23] Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 provides guidance regarding the reporting of gross and net cost information on the Statement of Net Cost.[24] Specifically, it advises that the statement should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities by programs or organizations. However, multiple components had material deficiencies related to the Gross Costs line item. These deficiencies included, but were not limited to, noncompliance with GAAP, inaccurate reporting of transactions, and inadequate controls for recording Gross Costs. Therefore, DoD management did not have reliable financial information to effectively manage and understand gross costs. As a result, there is an increased risk that the Gross Costs balance in the basic financial statements may be materially misstated.

Earned Revenue. For FY 2020, the DoD reported an Earned Revenue balance of $81.2 billion. SFFAS No. 7 states that earned revenues arise when the DoD provides goods and services to the public or to another Federal entity for a price.[25] However, multiple components had material deficiencies related to the Earned Revenue line item. These deficiencies included, but were not limited to, noncompliance with GAAP,

---

[23] FASAB Handbook, SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts," July 1995, as amended.

[24] FASAB Handbook, SFFAC No. 2, "Entity and Display," June 1995.

[25] FASAB Handbook, SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 1996, as amended.

inability to substantiate revenue-related transactions, and inadequate controls for recording Earned Revenue. As a result, there is an increased risk that Earned Revenue balance in the basic financial statements may be materially misstated.

Budgetary Resources. SFFAS No. 7 requires the DoD to present material budgetary information that comes wholly or in part from the budget in its Statement of Budgetary Resources. The material budgetary information includes total budgetary resources available to the DoD during the period, status of those resources, and outlays of those resources. The balances presented on the DoD components' Statement of Budgetary Resources may not be complete, accurate, or supported. Therefore, the DoD components, and the DoD as a whole, may not have been able to accurately determine and monitor the total budgetary resources available during the reporting period, or the status of those resources. The inability to monitor the status of budgetary resources created the potential for violations of the Antideficiency Act (ADA) and increased the risk that Statement of Budgetary Resources balances in the basic financial statements may be materially misstated.

Service Providers. A service provider is a third party that performs activities for many agencies. OMB Circular No. A-123 states that service providers are responsible for providing assurance to their customers and assisting those customers in understanding the relationship between the service provider's controls and the customer's user controls.[26] DoD service providers perform critical activities across the DoD such as managing inventory and preparing financial statements. However, many of the service providers had not designed or implemented reliable controls to provide the required assurance to their customers. While component management retains responsibility for the performance of processes assigned to service providers, service provider control deficiencies decrease the reliability and accuracy of the basic financial statements. As a result, there is an increased risk that balances in the basic financial statements may be materially misstated.

Entity-Level Controls. The FMFIA requires the DoD to establish internal control and the Green Book defines the standards for internal control in the Government. Green Book principle 10, "Design Control Activities," states that entity-level controls are controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. This principle also states that management should design entity-level control activities depending on the level of precision needed for

[26] OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control, " July 15, 2016

Attachment
Page **11** of **18**

the entity to meet its objectives and addresses related risks. However, multiple components did not design, document, and implement effective entity-level controls. Specifically, these components lacked sufficient internal control to achieve the objectives of reliable financial reporting, operating efficiency and effectiveness, and GAAP compliance. A lack of effective entity-level controls increased the risk that the balances in the basic financial statements may be materially misstated.

DoD-Wide Oversight and Monitoring. OMB Circular No. A-123 defines management's responsibility for internal control. Specifically, it requires that the DoD establish and integrate internal control into the entity's operations in a risk-based and cost-beneficial manner, which helps to provide reasonable assurance that the DoD's internal control over operations, reporting, and compliance is operating effectively. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer [OUSD(C)] and DFAS are responsible for consolidating component-level information to produce documents such as the Agency Financial Report. However, this component-level information is incomplete, inaccurate, and not GAAP compliant. OUSD(C) did not perform effective oversight and monitoring over this consolidation or have adequate time to perform verification of the component-level information prior to publishing agency wide information. For example, OUSD(C) failed to issue a policy to record Defense Working Capital Fund appropriations received from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) until October 2020, this resulted in components improperly recording these appropriations within their accounting systems.[27] Additionally, at the conclusion of the audit there were some corrective action plans for DoD-wide audit findings that had not been developed. Without proper controls over the consolidation of agency-wide information, OUSD(C) is unable to ensure that component information is presented consistently, or that appropriate adjustments can be made at the agency-wide level. As a result, there is an increased risk that information presented in-the basic financial statements is not complete or accurate.

Component-Level Oversight and Monitoring. OMB Circular No. A-123 requires component management to continuously monitor, assess, and improve the effectiveness of internal control as part of their risk profile. In addition, it requires component management to evaluate and document internal control deficiencies and determine appropriate corrective actions for those deficiencies on a timely basis. However, components did not implement oversight and monitoring activities in sufficient time to identify and resolve deficiencies that could impact their basic financial statement

---

[27] Public Law 116-136, "Coronavirus Aid, Relief, and Economic Security Act," March 2020.

Attachment
Page **12** of **18**

balances and related disclosures. In addition, multiple components were unable to sign Management Representation Letters on time, and therefore, audit opinions could not be issued by the required date. Consequently, the components could not provide reasonable assurance that internal controls over financial reporting are effective. As a result, there is an increased risk that the basic financial statements may be misstated.

Identified Significant Deficiencies

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, that is less severe than a material weakness yet important enough to merit the attention of those charged with governance. The following is a description of each of the four significant deficiencies we identified.

Transition to Risk Management Framework (RMF). The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk of not having those controls in place.[28] NIST SP 800-37 provides standards and guidance for the transition to the RMF in an effort to comply with FISMA.[29] Additionally, DoD Instruction 8510.01, "RMF for DoD Information Technology," requires that the RMF satisfy the requirements of the FISMA.[30] The DoD Chief Information Officer (CIO) oversees implementation of DoD Instruction 8510.01, which directs the cybersecurity risk management of DoD information technology, distributes RMF information standards and sharing requirements, and manages the transition from the DoD Information Assurance Certification and Accreditation Process (DIACAP) to the RMF. However, multiple components have not fully completed their transition from the DIACAP to the RMF for various key financial systems. For example, some components' financial systems do not have authority to operate in compliance with the RMF. In addition, the DoD CIO has not effectively monitored the components to ensure they have fully transitioned financially significant systems to the RMF. Components that have not transitioned financially significant systems to the RMF could expose the DoD's financial data to unidentified security risks. Additionally, the completeness, accuracy, confidentiality, integrity, and availability of financial data are negatively impacted by continuing to use systems that have not transitioned to the RMF, increasing the risk that balances in the basic financial statements may be misstated.

---

[28] Public Law 113-283, "Federal Information Security Modernization Act of 2014," December 2014.

[29] National Institute of Standards and Technology, Special Publication 800-37, Revision 2, "Risk Management Framework for Information Systems and Organizations," December 2018.

[30] DoD Instruction 8510.01, "Risk Management Framework for DoD Information Technology," July 2017.

Accounts Receivable. For FY 2020, the DoD reported a non-Federal Accounts Receivable balance of $5.1 billion. SFFAS No. 1 requires that the DoD recognize a receivable when it establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. However, the components do not have sufficient documentation to ensure the completeness and accuracy of non-Federal Accounts Receivable transactions. For example, one component did not reduce receivables in the accounting records when cash was collected in prior accounting periods. Additionally, the components had not developed or implemented effective controls to prevent or detect misstatements of non-Federal accounts receivable balances. As a result, there is an increased risk that balances in the basic financial statements may be misstated.

Legal Contingencies. The TFM requires that an entity's General Counsel prepare a Legal Representation Letter, which summarizes legal actions against the entity. The Legal Representation Letter must be accompanied by a Management Schedule that summarizes the content of the Legal Representation Letter. The Management Schedule is used to support disclosures in the basic financial statements. Components prepare Legal Representation Letters and Management Schedules for consolidation and presentation at the agency-wide level. However, there were control failures that affected the presentation and calculation of total legal contingencies at the agency-wide level. Specifically, DoD Management updated the interim agency-wide Management Schedule because of auditor-identified errors. Additionally, components did not record their legal contingencies using a consistent methodology and as a result, the components posted adjustments to reconcile their basic financial statement balances to their Management Schedule. Lack of controls over the process for preparing the Management Schedules, and the lack of consistent methodology for reporting component legal contingencies increased the risk that balances in the basic financial statements may be misstated.

Reconciliation of Net Cost of Operations to Outlays. SFFAS No. 7 requires the DoD to perform a reconciliation of its budgetary and proprietary data. OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the basic financial statements. However, components were unable to support adjustments made to reconcile budgetary and proprietary data on their basic financial statements, and as a result, the DoD reported a $4.5 billion reconciling difference between the budgetary and proprietary accounts. This occurred because the components did not design and implement controls to research and resolve variances between budgetary and proprietary data throughout the reporting period. Therefore, the basic financial statements do not accurately reflect the financial position of the DoD, and as a result, there is an increased risk of that balances in the basic financial statements may be misstated.

Report on Compliance With Provisions of Applicable Laws and Regulations, Contracts, and Grant Agreements

GAGAS and OMB guidance require auditors to report on an entity's compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. We determined that the DoD was not compliant with certain provisions of applicable laws and regulations, contracts, and grant agreements that could have a direct and material effect on the basic financial statements. Specifically, the DoD did not comply with certain provisions of the ADA; FFMIA; FMFIA; FISMA, Debt Collection Improvement Act; Prompt Payment Act; and CARES Act. However, our objective was not to express, and we do not express, an opinion on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Additionally, because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our Independent Auditor's Report, we performed limited audit procedures and therefore we may not have identified all instances of noncompliance.

Compliance With the Antideficiency Act

The ADA limits the DoD and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds.[31] Additionally, it states that the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. Additionally, it states that the DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations and specifies that if an officer or employee of an executive agency violates the ADA, the head of the

[31] Public Law 97-258, "Antideficiency Act," September 1982.

Attachment
Page **15** of **18**

agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2020, the DoD reported multiple ADA violations within one completed case.

DoD FMR, volume 14, chapter 3 establishes timeframes for identifying and reporting ADA violations.[32] The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. As of September 30, 2020, the DoD had seven on-going investigations related to potential ADA violations. One of the ongoing investigations had been open for more than 15 months.

Compliance With the Federal Financial Management Improvement Act

The FFMIA requires DoD management to establish and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction-level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA within its Agency Financial Report.

For FY 2020, the DoD did not substantially comply with the FFMIA. DoD management represented that its financial management and feeder systems did not substantially comply with Federal financial management systems requirements, Federal accounting standards, or the USSGL at the transaction-level as of September 30, 2020. In addition, we identified instances of non-compliance with the USSGL and identified that the components did not substantially comply with the FFMIA.

Compliance With the Federal Managers' Financial Integrity Act

The FMFIA requires DoD management to perform ongoing evaluations and report on the adequacy of DoD systems of internal accounting and administrative control. OMB Circular No. A-123, which implemented the FMFIA, requires DoD management to establish and maintain internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with provisions of applicable laws and regulations.

[32] DoD FMR, volume 14, chapter 3, "Antideficiency Act Violation Process."

For FY 2020, the DoD did not substantially comply with the FMFIA. DoD management represented that the internal control over financial reporting was not effective because of the material weaknesses reported in the FY 2020 Agency Financial Report. In addition, we identified that components did not substantially comply with the FMFIA.

Compliance With the Federal Information Security Modernization Act

The FISMA requires agencies to provide information security controls commensurate with the risk of not having those controls in place. NIST publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from these standards and guidelines represent departures from FISMA requirements. We identified that the components did not comply with certain aspects of the FISMA standards and guidelines.

Compliance With the Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires that any non-tax debts or claims owed to the U.S. Government that are over 120 days delinquent be reported to the Treasury for the purpose of administrative offset.[33] We identified that a component did not transfer all outstanding eligible debt in accordance with these requirements and therefore, did not comply with Debt Collection Improvement Act requirements.

Compliance with the Prompt Payment Act

The Prompt Payment Act states that the head of an agency acquiring property or services who does not pay for each complete delivered item of property or service by the required payment date will pay an interest penalty on the amount of the payment due.[34] It also states that the head of an agency will pay this interest penalty out of amounts made available to carry out the program for which the penalty occurred. We identified that a component did not pay interest from the appropriate Treasury Account Symbol and therefore, did not comply with the Prompt Payment Act.

---

[33] Public Law 104-134, "Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014," April 1996.

[34] Public Law 97-177, "Prompt Payment Act," May 1982.

Compliance with the Coronavirus Aid, Relief, and Economic Security Act

Congress enacted the CARES Act in response to the societal and economic impacts of coronavirus disease–2019. The CARES Act appropriated funds for the fiscal year ending September 30, 2020, to the DoD for multiple purposes. In addition, the CARES Act requires the DoD to report certain obligations and expenditures to the OMB, Treasury, and Congress. DoD management represented that they did not have the mechanisms within their financial reporting systems to track CARES Act related transactions and separately report the impact on the DoD's assets, liabilities, costs, revenues, and net position. As a result, the DoD did not comply with the related provisions of the CARES Act.

Recommendations

This report does not include recommendations to correct the material weaknesses; significant deficiencies; or instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Auditors provided Notices of Finding and Recommendation to DoD and component management to address reported material weaknesses, significant deficiencies, and instances of noncompliance with certain or specific provisions of applicable laws and regulations, contracts, and grant agreements, when appropriate. In addition, auditors of the components financial statements included recommendations within their Independent Auditor's Report on Internal Control over Financial Reporting.

PRINCIPAL FINANCIAL STATEMENTS AND NOTES

The principal financial statements are prepared to report the financial position and results of operations of the Department of Defense (DoD or the Department), pursuant to the requirements of title 31, United States Code, section 3515(b) (**31 U.S.C. § 3515(b)**).

The statements are prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget (**OMB**) **Circular No. A-136** and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (**FASAB**). The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government.

The principal financial statements of the Department include the four financial statements described in Table 1.

4 PRINCIPAL FINANCIAL STATEMENTS

01 Balance Sheet

Reflects the Department's financial position as of the statement date (September 30, 2020). The assets reflect the current and future economic benefits owned or managed by the Department. The liabilities reflect amounts owed by the Department. The net position is the difference between the assets and liabilities.

02 Statement of Net Cost

Shows, by major program, the components of the net cost of the Department's operations for the period. Net cost is equal to the gross cost incurred by the Department less any exchange revenue earned from its activities.

03 Statement of Changes in Net Position

Presents the sum of the unexpended appropriations provided to the Department that remain unused at the end of the fiscal year and the cumulative results of the Department's operations since inception. The statement focuses on how the Department's net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.

04 Statement of Budgetary Resources

Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the Department's budgetary general ledger in accordance with budgetary accounting rules. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are included in the balances reported on the statement.

DEPARTMENT OF DEFENSE
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)	RESTATED 2019 (UNAUDITED)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$637,175.8	$607,555.3
Investments (Note 5)	1,281,767.1	1,187,609.0
Accounts Receivable (Note 6)	2,091.4	2,025.2
Other Assets (Note 10)	1,003.0	1,106.5
Total Intragovernmental Assets	1,922,037.3	1,798,296.0
Cash and Other Monetary Assets (Note 4)	966.3	918.3
Accounts Receivable, Net (Note 6)	5,149.9	5,894.5
Loans Receivable (Note 7)	1,602.6	1,738.7
Inventory and Related Property, Net (Note 8)	310,210.5	292,605.6
General Property, Plant and Equipment, Net (Note 9)	790,505.2	766,194.7
Investments (Note 5)	3,511.6	3,511.6
Other Assets (Note 10)	20,733.2	19,543.1
Total Assets	3,054,716.6	2,888,702.5
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	2,573.8	1,544.2
Debt (Note 12)	1,662.6	1,714.1
Other Liabilities (Notes 15 and 17)	10,776.8	7,777.0
Total Intragovernmental Liabilities	15,013.2	11,035.3
Accounts Payable	36,121.2	39,793.6
Military Retirement and Other Federal Employment Benefits (Note 13)	2,654,064.2	2,596,371.8
Environmental and Disposal Liabilities (Note 14)	75,041.9	76,124.9
Loan Guarantee Liability (Note 7)	44.1	50.7
Other Liabilities (Notes 15 and 17)	39,325.8	36,758.2
Total Liabilities	2,819,610.4	2,760,134.5
Commitments and Contingencies (Note 17)		
Net Position		
Unexpended Appropriations - Other Funds	569,725.2	543,945.8
Cumulative Results of Operations - Dedicated Collections (Note 18)	32,557.9	30,331.1
Cumulative Results of Operations - Other Funds	(367,176.9)	(445,708.9)
Total Net Position	235,106.2	128,568.0
Total Liabilities and Net Position	$3,054,716.6	$2,888,702.5

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
CONSOLIDATED STATEMENT OF NET COST
FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	RESTATED 2020 (UNAUDITED)	2019 (UNAUDITED)
Gross Program Costs:		
Military Retirement Benefit	$139,257.2	$106,422.7
Civil Works	12,978.8	11,594.9
Military Personnel	157,010.7	150,995.7
Operations, Readiness & Support	284,482.2	297,033.2
Procurement	103,044.1	126,512.6
Research, Development, Test & Evaluation	110,644.6	104,654.5
Family Housing & Military Construction	9,747.7	25,123.1
Total Gross Program Costs	817,165.3	822,336.7
Less: Earned Revenue	(81,244.8)	(90,502.2)
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	735,920.5	731,834.5
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(17,375.3)	138,808.5
Net Cost of Operations	$718,545.2	$870,643.0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	RESTATED 2020 (UNAUDITED)	RESTATED 2019 (UNAUDITED)
Unexpended Appropriations		
Beginning Balance (Includes Funds from Dedicated Collections - See Note 18)	$543,945.8	$529,803.7
Prior Period Adjustments:		
Corrections of Errors	(14.7)	(1,222.4)
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $0.0 in FY 2020 and $0.0 in FY 2019 - See Note 18)	543,931.1	528,581.3
Budgetary Financing Sources:		
Appropriations Received	842,566.6	802,827.9
Appropriations Transferred In/Out	197.4	59.2
Other Adjustments	(18,619.8)	(22,533.9)
Appropriations Used	(798,350.1)	(764,988.7)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections of $0.00 in FY 2020 and $0.0 in FY 2019 - See Note 18)	25,794.1	15,364.5
Total Unexpended Appropriations (Includes Funds from Dedicated Collections of $0.00 in FY 2020 and $0.0 in FY 2019 - See Note 18)	569,725.2	543,945.8
Cumulative Results of Operations		
Beginning Balance	(415,377.8)	(344,220.1)
Prior Period Adjustments:		
Changes in Accounting Principles (+/-)	1,858.8	4,277.8
Corrections of Errors (+/-)	(1.7)	7,114.0
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $30,331.1 in FY 2020 and $27,734.0 in FY 2019 - See Note 18)	(413,520.7)	(332,828.3)
Budgetary Financing Sources:		
Other Adjustments (+/-)	(265.7)	(210.8)
Appropriations Used	798,350.1	764,988.7
Nonexchange Revenue	2,421.8	3,997.6
Donations and Forfeitures of Cash and Cash Equivalents	62.4	137.5
Transfers In/Out Without Reimbursement	116.2	137.5
Other budgetary financing sources	(2,741.2)	(2,521.5)

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	RESTATED 2020 (UNAUDITED)	RESTATED 2019 (UNAUDITED)
Other Financing Sources (Nonexchange):		
Donations and Forfeitures of Property	8.2	-
Transfers In/Out Without Reimbursement (+/-)	(397.4)	46.4
Imputed Financing	4,608.2	5,609.8
Other (+/-)	(4,715.7)	15,908.3
Total Financing Sources (Includes Funds from Dedicated Collections of $2,134.6 in FY 2020 and $3,649.9 in FY 2019 - See Note 18)	797,446.9	788,093.5
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of $(92.2) in FY 2020 and $1,052.8 in FY 2019 - See Note 18)	718,545.2	870,643.0
Net Change	78,901.7	(82,549.5)
Cumulative Results of Operations (Includes Funds from Dedicated Collections of $32,557.9 in FY 2020 and $30,331.1 in FY 2019 - See Note 18)	(334,619.0)	(415,377.8)
Net Position	$235,106.2	$128,568.0

The accompanying notes are an integral part of these statements.

DEPARTMENT OF DEFENSE
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)		RESTATED 2019 (UNAUDITED)	
Budgetary Resources	Budgetary	Non-Budgetary Credit Reform Financial Account	Budgetary	Non-Budgetary Credit Reform Financial Account
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) Note 21	$213,281.1	$59.9	$226,768.1	$69.0
Appropriations (Discretionary and Mandatory)	914,251.5	-	874,378.1	-
Borrowing Authority (Discretionary and Mandatory)	-	69.9	-	63.3
Contract Authority (Discretionary and Mandatory)	78,672.5	-	86,854.4	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	130,289.6	54.4	112,965.6	56.8
Total Budgetary Resources	1,336,494.7	184.2	1,300,966.2	189.1
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	1,157,332.3	132.2	1,115,956.2	129.2
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	151,814.0	-	157,138.3	-
Exempt from Apportionment, Unexpired Accounts	4,210.3	-	4,040.4	-
Unapportioned, Unexpired Accounts	1,982.9	52.0	1,128.2	59.9
Unexpired Unobligated Balance, End of Year	158,007.2	52.0	162,306.9	59.9
Expired Unobligated Balance, End of Year	21,155.2	-	22,703.1	-
Unobligated Balance, End of Year (Total)	179,162.4	52.0	185,010.0	59.9
Total Budgetary Resources	1,336,494.7	184.2	1,300,966.2	189.1
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	872,148.6	-	828,633.3	-
Distributed Offsetting Receipts (-)	(108,929.2)	-	(107,410.1)	-
Agency Outlays, Net (Discretionary and Mandatory)	$763,219.4	-	$721,223.2	-
Disbursements, Net				
Disbursements, Net (Total) (Mandatory)	-	$(46.9)	-	$37.6

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

CLICK EACH NOTE FOR QUICK ACCESS

NOTE DISCLOSURES RELATED TO THE BALANCE SHEET

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

CLICK EACH NOTE FOR QUICK ACCESS

OTHER STATEMENTS

NOTE DISCLOSURES NOT PERTAINING TO A SPECIFIC STATEMENT

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Department of Defense (Department or DoD) includes the Office of the Secretary of Defense (**OSD**), Joint Chiefs of Staff (**JCS**), DoD Office of the Inspector General (**DoD OIG**), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the **Army**, the **Navy** (of which the **Marine Corps** is a component), and the **Air Force** (of which the **Space Force** is a component). Appendix A provides a list of the components which comprise the Department's reporting entity for the purposes of these consolidated/combined financial statements.

B. MISSION OF THE REPORTING ENTITY

The Department was established by the **National Security Act of 1947**. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States (U.S.) by deterring and defeating aggression and coercion in critical regions.

C. BASIS OF PRESENTATION

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

The Department is unable to fully comply with all elements of GAAP and OMB Circular No. A-136 due to the limitations of financial and non-financial processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Department continues to implement process and system improvements addressing these limitations.

In accordance with FASAB Statement of Federal Financial Accounting Standards **(SFFAS) 47**, Reporting Entity, in Note 26, Disclosure Entities and Related Parties, the Department is disclosing its relationships with Department-sponsored Federally Funded Research and Development Centers and DoD Nonappropriated Fund Instrumentalities.

D. BASIS OF ACCOUNTING

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DoD Components and their sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections) from non-financial feeder systems and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

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

The Department is continuing to evaluate the effects that will

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF ACCOUNTING (CONTINUED)

result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. The pronouncements listed below are expected to have an impact on the Department's financial statements; however, the Department is currently unable to determine the full impact.

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

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

02 **SFFAS 49**, *Public-Private Partnerships*: Issued on April 27, 2016; Effective for periods after September 30, 2018. Early implementation is not permitted.

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

03 **SFFAS 50**, *Establishing Opening Balances for General Property, Plant, and Equipment*: *Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016.

The Department plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with **SFFAS 6**, *Accounting for Property*, Plant and Equipment, are not yet fully implemented. Therefore, the Department is not making an unreserved assertion with respect to this line item.

04 **SFFAS 53**, *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

05 **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.

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

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

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

The Department has not recorded all transactions consistent with GAAP. The Department continues to transition to systems that can produce GAAP compliant financial statements. The following known transactions were not recorded consistent with GAAP and are believed to be materially misstated in the financial statements (note: the below is not an exhaustive list):

1. Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.
2. Transactions that should have been recorded in prior years, were recorded in the current year.

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ACCOUNTING FOR INTRAGOVERNMENTAL AND INTERGOVERNMENTAL ACTIVITIES

Treasury Financial Manual (**Treasury**), Volume I, Part 2, **Chapter 4700**, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The Department is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of the Department by another federal entity. In accordance with **SFFAS 55**, *Amending Inter-entity Cost Provisions,* the Department recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act (**FECA**); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

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

F. NON-ENTITY ASSETS

Non-entity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for non-entity assets. An example of a non-entity asset is the portion of Fund Balance with Treasury (FBwT) that consists of deposit and receipt funds.

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

G. FUND BALANCE WITH TREASURY

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

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

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

In addition, DFAS and the USACE Finance Center report to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBwT account.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. CASH AND OTHER MONETARY ASSETS

Cash is the total of cash resources under the control of the Department, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the Treasury prevailing rate of exchange. The TFM Volume I, Part 2, **Chapter 3200** , provides guidance for accounting and reporting foreign currency.

The majority of cash and all foreign currency is classified as "non-entity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Department conducts a significant portion of its operations overseas. Congress established a special appropriations account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance, (2) military personnel, (3) military construction, (4) family housing operations and maintenance, and (5) family housing construction. The gains and losses are calculated as the difference between the exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify foreign currency fluctuation transactions.

For additional information, see Note 4, *Cash and Other Monetary Assets.*

I. INVESTMENTS AND RELATED INTEREST

The Department reports investments in Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method yielding similar results. The Department's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Department invests in non-marketable, market-based Treasury securities issued to federal agencies by Treasury's **Bureau of the Fiscal Service**. These securities are not traded on any financial exchange but are priced consistently with publicly traded Treasury securities.

The Department's net investments are held by various trust and special funds. These funds include the Military Retirement Fund; Medicare-Eligible Retiree Health Care Fund; Support for U.S. Relocation to Guam Activities; donations (gift funds); and Treasury managed trust funds reported by USACE including the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Fund accounts.

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of Military Housing Privatization Initiative (**MHPI**), authorized by the National Defense Authorization Act **(NDAA) for FY 2005**.

For additional information, see Note 5, *Investments and Related Interest*.

J. ACCOUNTS RECEIVABLE

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

The Department has fuel exchange agreements with foreign countries. These agreements allow the Department to periodically offset the accounts receivable by the amount the Department owes to the same foreign country. The accounts receivable for fuel exchange agreements are not included in the accounts receivable balance.

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

K. DIRECT LOANS AND LOAN GUARANTEES

The Department operates a direct loan and loan guarantee program authorized by the **NDAA for FY 1996**, which provides the Department with the authorities to work with the private sector to obtain private lending, expertise, innovation, and

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. DIRECT LOANS AND LOAN GUARANTEES (CONTINUED)

provide housing more efficiently. The Department uses these authorities to operate guarantees (both loan and rental), conveyance/leasing of existing property and facilities, differential lease payments, investments (both limited partnerships and stock/bond ownership), and direct loans to the extent of the sanctions which are defined in the Federal Credit Reform Act of 1990 (**FCRA**). FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

The **NDAA for FY 2005** provided permanent authorities to the MHPI.

The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers, to attract private lending, expertise, and innovation, and provide housing more efficiently.

As required by **SFFAS 2**, *Accounting for Direct Loans and Loan Guarantees*, the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

OMB **Circular No. A-11**, *Preparation, Submission, and Execution of the Budget*, Part 5 and OMB Circular No. A-136, specify disclosure requirements for government direct loans and loan guarantees.

For additional information, see Note 7, *Direct Loans and Loan Guarantees*.

L. INVENTORIES AND RELATED PROPERTY

The Department values substantially all of its inventory available and purchased for resale using the moving average cost method. Inventory available and purchased for resale includes consumable spare and repair parts, and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory requiring repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process encouraging the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness for a lethal joint force. Inventory Work-in-Process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term relating to military force management, and includes items such as ships; tanks; self-propelled weapons; aircraft; and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies.

Related property includes Operating Material and Supplies (OM&S) and stockpile materiel. OM&S, including munitions not held for sale, are valued using various methods including moving average cost, standard price, historical cost, replacement price, and direct method. The Department uses both the consumption method and the purchase method of accounting for OM&S. Centrally managed and stored items, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. Under this method, materiel and supplies are expensed when consumed. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than General Equipment. The Department determined the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

OM&S are recognized at net realizable value through the use of an allowance account. For excess, obsolete, and unserviceable (EOU) inventory transferred to the Defense Logistics Agency (**DLA**) **Disposition Services**, the net realizable value will generally be zero. The net realizable value of EOU disposed of through a **Qualified Recycling Program** or by other means other than a transfer to DLA is estimated based on prior disposal proceeds for comparable EOU, buyer quotes, or other

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. INVENTORIES AND RELATED PROPERTY (CONTINUED)

reasonable means.

For all types of inventory and related property, the Department, when applicable, will continue to adopt SFFAS 48, which permits alternative methods in establishing opening balances. The FASAB issued **SFFAS 48**, permitting alternative methods in establishing opening balances, effective for periods beginning after September 30, 2016. Some DoD Components used the deemed cost measures from this standard for FY 2016; additional DoD Components used the deemed cost measures from SFFAS 48 in FY 2018 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and actual historical cost as the basis for valuation.

For additional information, see Note 8 *Inventory and Related Property*.

M. GENERAL PROPERTY, PLANT, AND EQUIPMENT

The Department generally records General GPP&E at the estimated historical cost. When applicable, the Department will continue to adopt SFFAS 50, which permits alternative methods in establishing opening balances effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from SFFAS 50 based on historical records such as expenditure data, contracts, budget information, and engineering documentation. See Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 50.

General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications/improvements to existing General PP&E assets are capitalized if they (1) extends the asset's useful life by two or more years, or increases the assets capability, or increases its capacity or size, and (2) equals or exceeds the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250 thousand with the following exceptions:

DoD Entity	Capitalization Threshold
Department of the Navy General Fund (General Equipment and Real Property)	$1 million
Department of the Air Force General Fund (General Equipment)	$1 million
Office of the Director of National Intelligence (**ODNI**) DoD Members only	$1 million
USACE Civil Works General PP&E assets, other than buildings and structures related to hydropower projects	$25 thousand
USACE Civil Works buildings and structures related to hydropower projects	Capitalized regardless of cost

Except for those related to USACE Civil Works, ODNI, and Department of Navy General Fund (Real Property), these capitalization thresholds apply to General PP&E asset acquisitions and modifications/improvements placed into service after September 30, 2013; General PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds ($100 thousand for general equipment and $20 thousand for real property). However, in the years leading up to the DoD entities making unreserved assertions under SFFAS 50, each DoD Entity may apply the applicable capitalization threshold to its entire population of General PP&E retroactively, irrespective of the capitalization thresholds in effect for the years prior to October 1, 2013. The Department depreciates all General PP&E assets, other than land, on a straight-line basis.

The Department provides government-owned or leased General PP&E (Government-Furnished Property (GFP)) to contractors for performing a contract, for which the Department must recognize the GFP for accountability and financial reporting purposes.

Contactor-Acquired Property (CAP) is General PP&E acquired by a contractor on behalf of the Department for performing a contract, where the government will ultimately hold the title to the General PP&E. If the CAP has a useful life of at least two years and the value of the CAP meets or exceeds the relevant capitalization threshold, GAAP requires the CAP to be reported on the Department's Balance Sheet when title passes to the Department or when the General PP&E is delivered to the Department.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. OTHER ASSETS

Other Assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Department's Balance Sheet. For advance payments recorded as assets, the Department properly expenses or capitalizes assets when the related goods and services are received.

The Department conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. The Department may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation (**FAR**), **Part 32**, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement (**DFARS**) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

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

O. LEASES

Lease payments for the rental of equipment, internal use software, and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to the Department (a capital lease) and the value equals or exceeds the relevant capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The Department records the asset and liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An operating lease does not substantially transfer all the benefits and risks of ownership to the Department. Payments for operating leases are expensed over the lease term. Office space leases entered into by the Department are the largest component of operating leases.

For additional information, see Note 16 *Leases*.

P. LIABILITIES

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by the Department absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example future environmental cleanup liability, represent amounts owed in excess of available appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11, *Liabilities Not Covered by Budgetary Resources*.

Q. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with **SFFAS 5**, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, the Department recognizes non-environmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

not easily distinguishable and are developed in conjunction with environmental disposal costs.

For additional information, see Note 14, *Environmental and Disposal Liabilities*.

R. OTHER LIABILITIES

Other Liabilities includes:

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

Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity, or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgement Fund Liabilities, see Note 17, *Commitments and Contingencies*.

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

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

The Federal Employees Compensation Act (**FECA**) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (**DOL**), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

SFFAS 51, *Insurance Programs*, established accounting and financial reporting standards for insurance programs. Office of Personnel Management (**OPM**) administers insurance benefit programs available for coverage to the Department's civilian employees. The programs are available to Civilian employees but employees do not have to participate. These programs include life, health, and long term care insurance.

The life insurance program, Federal Employee Group Life Insurance (**FEGLI**) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (**FEHB**) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (**FEDVIP**). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

The Federal Long Term Care Insurance Program (**FLTCIP**) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB. However, employees are not required to be enrolled in FEHB.

OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The Department has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. OTHER LIABILITIES (CONTINUED)

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

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

Other Liabilities primarily consists of unemployment compensation liabilities.

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

S. COMMITMENTS AND CONTINGENCIES

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

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

The Department does not have environmental contingencies. The legal environmental cases are recorded as legal contingencies.

For additional information, see Note 17, *Commitments and Contingencies*.

T. MILITARY AND CIVILIAN RETIREMENT BENEFITS

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

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

The majority of DoD employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while the majority of DoD employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. A primary feature of FERS is that it also offers a defined contribution plan (Thrift Savings Plan) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these Other Retirement Benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for Other Post-employment Benefits (OPEB), including all

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. MILITARY AND CIVILIAN RETIREMENT BENEFITS (CONTINUED)

types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

U. REVENUES AND OTHER FINANCING SOURCES

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

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

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

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

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

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose and the expenditure of these receipts. Certain trust and special funds may be designated as Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. In accordance with **SFFAS 27**, *Identifying and Reporting Funds from Dedicated Collections*, as amended by **SFFAS 43**, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Department separately accounts for and reports on the receipt, use, and retention of revenues and other financing sources for Funds from Dedicated Collections in Note 18, Funds from Dedicated Collections.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not DoD funds and, as such, are not available for the Department's operations. The Department is acting as an agent or custodian for funds awaiting distribution.

In accordance with **SFFAS 7**, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Department 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.

Deferred revenue is recorded when the Department receives

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. REVENUES AND OTHER FINANCING SOURCES (CONTINUED)

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

The Department 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.

V. RECOGNITION OF EXPENSES

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

In the case of OM&S, operating expenses are generally recognized when the items are purchased. The Department has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under GAAP. Under the consumption method, OM&S would be expensed when consumed.

W. TREATIES FOR USE OF FOREIGN BASES

The Department uses land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The Department of Defense purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any irretrievable capital assets. The settlement due to the United States or host nation is negotiated and takes into account the value of capital investments and may be offset by environmental cleanup costs, if applicable.

X. USE OF ESTIMATES

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

Y. PARENT-CHILD REPORTING

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

The Department receives allocation transfers from the following agencies: Departments of Agriculture, Interior, Energy, and Transportation; the Appalachian Regional Commission; and the Federal Highway Administration.

Additionally, the Department also receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. These funds include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance.

As a parent, the Department reports in these financial statements certain funds allocated to the Departments of Transportation and Agriculture.

Z. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

The Department is implementing the administration's foreign policy objectives under the provisions of the **Arms Export Control Act of 1976** by facilitating the sale of U.S. Government-

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Z. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS (CONTINUED)

approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

AA. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Department of cash and other assets in which non-federal individuals or entities have an ownership interest that the Department must uphold. Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet. For additional information, see Note 23, *Fiduciary Activities*.

BB. TAX EXEMPT STATUS

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

NOTE 2: NON-ENTITY ASSETS

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

TABLE 2: NON-ENTITY ASSETS

As of September 30 ($ in millions)	2020	Restated 2019
Intragovernmental Assets		
Fund Balance with Treasury	$2,533.0	$3,135.3
Accounts Receivable	1.2	4.5
Total Intragovernmental Assets	2,534.2	3,139.8
Non-Federal Assets		
Cash and Other Monetary Assets	865.4	827.1
Accounts Receivable	2,146.8	2,194.6
Other Assets	0.2	-
Total Non-Federal Assets	3,012.4	3,021.7
Total Non-Entity Assets	5,546.6	6,161.5
Total Entity Assets	3,049,170.0	2,882,541.0
Total Assets	$3,054,716.6	$2,888,702.5

RESTATEMENT

The Department corrected a $2.4 billion overstatement of the net book value of General PP&E and $1.1 billion understatement of operating materials and supplies which affect Total Entity Assets in Table 2. See Note 9, *General PP&E*, Note 8, *Inventory and Related Property* and Note 28, *Restatements* for further information.

INTRAGOVERNMENTAL ASSETS

Fund Balance with Treasury (FBWT) consists primarily of deposit funds and receipt accounts. Deposit funds represent amounts held temporarily until paid to the appropriate party. Receipt accounts represent amounts collected on behalf of the Treasury General Fund.

Accounts Receivable are primarily amounts necessary to cover surcharge liabilities to be collected on behalf of others.

NON-FEDERAL ASSETS

Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment, collection, and foreign currency exchanges. See Note 1.H., *Significant Accounting Policies, Cash and Other Monetary Assets* for further information.

Accounts Receivable consists of amounts associated with multiple types of long-term agreements such easements, sales of hydroelectric power, recreational development, and water storage agreements; canceled year appropriations; and interest, fines, and penalties receivables. Generally, the Department cannot use the proceeds and must remit them to the Treasury unless permitted by law.

Other Assets consists of the advance or prepayment made in contemplation of future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, for other than outstanding contract financing payments or advanced personnel reimbursements.

NOTE 3: FUND BALANCE WITH TREASURY

The Treasury records cash receipts and disbursements on the Department's behalf; funds are available only for the purposes for which they were appropriated. The Department's Fund Balances with Treasury consist of appropriation accounts, revolving funds, trust accounts, special funds and other fund types.

RESTATEMENT

The Department corrected a $16.0 million overstatement in Unobligated Balance, Available and an offsetting understatement in Obligated Balance not yet Disbursed. The Total FBWT balance did not change. See Note 28, *Restatements* for further information.

TABLE 3: STATUS OF FUND BALANCE WITH TREASURY

As of September 30 ($ in millions)	2020	*Restated* 2019
Unobligated Balance		
Available	$156,024.3	$161,178.7
Unavailable	1,190,467.0	1,099,882.1
Total Unobligated Balance	1,346,491.3	1,261,060.8
Obligated Balance Not Yet Disbursed	594,286.6	544,742.4
Non-Budgetary FBWT		
Clearing accounts	(1.4)	16.5
Deposit funds	2,591.9	3,183.4
Non-entity and other	158.9	281.2
Total Non-Budgetary FBWT	2,749.4	3,481.1
Non-FBWT Budgetary Accounts		
Investments - Treasury Securities	(1,174,266.2)	(1,082,792.7)
Unfilled Customer Orders without Advance	(89,155.6)	(73,853.7)
Contract Authority	(27,869.2)	(30,956.3)
Borrowing Authority	(79.9)	(79.9)
Receivables and Other	(14,980.6)	(14,046.4)
Total Non-FBWT Budgetary Accounts	(1,306,351.5)	(1,201,729.0)
Total FBWT	$637,175.8	$607,555.3

The Status of FBWT, as presented in Table 3, 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.

NOTE 3: FUND BALANCE WITH TREASURY (CONTINUED)

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 Non-Entity FBWT.

Non-FBWT Budgetary Accounts line reduces budgetary resources to account for investments in Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

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

Contract Authority and Reimbursable Authority (Spending Authority from Anticipated Collections) does not increase the FBWT when initially posted, but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

Unfilled Customer Orders Without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities. The Department received allocation transfers from other federal agencies for execution on their behalf in the amount of $494.7 million in FY 2020 and $357.3 million in FY 2019. In addition, the Department held cash and cash equivalents for fiduciary activities in the amount of $972.8 million in FY 2020 and $67.0 million in FY 2019; these amounts are not reported in FBWT in accordance with **SFFAS 31**. The FY 2020 fiduciary activities increase is attributable to the Foreign Cooperative Project of $909.4 million. For additional information, see Note 23. *Fiduciary Activities*.

The FBWT reported in the financial statements has been adjusted to reflect the Department's balance as reported by Treasury. The difference between FBWT in the Department's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD Components' general ledgers 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 DoD Components' general ledger accounts.

NOTE 4: CASH AND OTHER MONETARY ASSETS

TABLE 4: CASH AND OTHER MONETARY ASSETS

As of September 30 ($ in millions)	2020	2019
Cash	$488.8	$428.2
Foreign Currency	477.5	490.1
Total Cash and Other Monetary Assets	$966.3	$918.3

The majority of cash and all foreign currency is classified as non-entity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions. These amounts are held outside of Treasury, in local deposit accounts, or cash, under the custodial responsibility of the disbursing officer and are not directly associated with an appropriation. An offsetting liability to Treasury is reported on Note 15, *Other Liabilities*.

In FY 2020 and FY 2019, cash includes unrestricted entity assets of $100.9 million and $90.1 million, respectively, comprised of undeposited collections and other cash.

NOTE 5: INVESTMENTS AND RELATED INTEREST

TABLE 5: INVESTMENTS AND RELATED INTEREST

As of September 30 ($ in millions)	2020				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$1,013,708.9	Eff. Int.	$(40,106.4)	$973,602.5	$1,218,732.9
Medicare Eligible Retiree					
Health Care Fund	305,586.8	Eff. Int.	(17,785.7)	287,801.1	363,974.1
U.S. Army Corps of Engineers	9,280.8	Eff. Int.	20.5	9,301.3	9,341.5
Other Funds	2,993.8	Eff. Int.	(23.0)	2,970.8	3,052.1
Total Non-Marketable, Market-Based	1,331,570.3		(57,894.6)	1,273,675.7	1,595,100.6
Accrued Interest	8,091.4	Eff. Int.	N/A	8,091.4	8,091.4
Total Intragovernmental Securities	1,339,661.7		(57,894.6)	1,281,767.1	1,603,192.0
Other Investments	$3,511.6		$-	$3,511.6	N/A

Legend for Amortization Methods:
Eff. Int. = Effective Interest Method

	2019				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$928,306.9	Eff. Int.	$(37,141.7)	$891,165.2	$997,841.3
Medicare Eligible Retiree					
Health Care Fund	292,451.8	Eff. Int.	(16,436.8)	276,015.0	318,751.7
U.S. Army Corps of Engineers	9,375.6	Eff. Int.	41.9	9,417.5	9,444.7
Other Funds	2,973.8	Eff. Int.	(43.1)	2,930.7	2,971.4
Total Non-Marketable, Market-Based	1,233,108.1		(53,579.7)	1,179,528.4	1,329,009.1
Accrued Interest	8,080.6	Eff. Int.	N/A	8,080.6	8,080.6
Total Intragovernmental Securities	1,241,188.7		(53,579.7)	1,187,609.0	1,337,089.7
Other Investments	$3,511.6		$-	$3,511.6	N/A

Legend for Amortization Methods:
Eff. Int. = Effective Interest Method

The Department invests primarily in non-marketable, market-based Treasury securities (See Note 1.I *Significant Accounting Policies*). The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The Treasury securities were issued to trust and special funds legally authorized to invest funds with Treasury and are an asset to the Department and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds

NOTE 5: INVESTMENTS AND RELATED INTEREST (CONTINUED)

from sureties reaching maturity) is deposited in the Treasury and used for general Government purposes. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all of its other expenditures.

In FY 2020, the U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of $9.2 billion and $9.3 billion in FY 2019, and $9.1 billion in Harbor Maintenance and Related Funds for FY 2020 and FY 2019 respectively.

In FY 2020, Other Funds consists primarily of $1.6 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.0 billion in investments of the DoD Education Benefits Trust Fund. In FY 2019, Other Funds consists primarily of $1.6 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.1 billion in investments of the DoD Education Benefits Trust Fund.

Other Investments consists of Military Housing Privatization Initiative (MHPI) limited partnerships (LP) and limited liability companies (LLC). These business enterprises are designed as public-private partnerships, which are defined as long-term contractual arrangements between the government and the private sector whereby the private partner delivers and funds public services using a capital asset, and sharing the associated risks. The Department invests in non-governmental entities involved in the acquisition or construction of family housing and supporting facilities at Army, Air Force, Navy, and Marine Corps installations. The Department provides cash, land, or facilities as equity, and the Department's involvement in the operations and management of the LP/LLC is governed by evaluating the percentage of ownership interest, along with analyzing the indicators of control, which determines the level of influence over the partnership. Total Other Investments is currently reporting cash investments only. See Note 25, *Public-Private Partnerships* for additional information on cash and non-cash contributions to the MHPI limited partnerships.

NOTE 6: ACCOUNT RECEIVABLE, NET

TABLE 6: ACCOUNTS RECEIVABLE, NET

As of September 30 ($ in millions)	2020		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$2,123.3	$(31.9)	$2,091.4
Non-Federal Receivables (From the Public)	6,051.9	(902.0)	5,149.9
Total Accounts Receivable	$8,175.2	$(933.9)	$7,241.3

	2019		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$2,025.2	N/A	$2,025.2
Non-Federal Receivables (From the Public)	6,677.8	(783.3)	5,894.5
Total Accounts Receivable	$8,703.0	$(783.3)	$7,919.7

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, **Chapter 4700**. 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.

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 2020 the intragovernmental allowance was calculated using the same methodology as for public receivables. The Department developed its policy, related to the allowance for uncollectible accounts for intragovernmental receivables.

The gross amount due for Non-Federal Receivables (From the Public) for FY 2020 includes criminal restitution orders of $370.1 million monitored by the Department, of which $18.3 million is determined to be collectible. Restitution receivables and associated payments are pursued by the courts handling those cases. The Department establishes the receivables based on the court documents received and posts payments received through the courts. At two years, delinquent, criminal restitution receivables are considered 100 percent uncollectible; however, the Department is only authorized to write off or close accounts with approval from the Department of Justice. For FY 2019, the criminal restitution orders were $1.1 billion of which $0.5 billion is determined to be collectible.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

MILITARY HOUSING PRIVATIZATION INITIATIVE (MHPI)

The Department operates loan guarantee programs for MHPI. The MHPI includes both direct loan and loan guarantee programs. The programs are authorized by the **NDAA for FY 1996**, which includes a series of authorities allowing the Department to work with the private sector to renovate and build military family housing, and the **NDAA for FY 2005**, which provides the permanent authority. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

The **Federal Credit Reform Act of 1990** governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991.

MHPI LOAN MODIFICATION

Since inception of the program, no direct loan project has ever defaulted on its obligations to MHPI. The Department recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of affected projects. Although projects may not be at risk of imminent default or forecasted to have debt issues, a sustainment review is performed every 2 to 3 years outlining the needs of a project. On an annual basis, there is a re-forecast of projected cash flows to assess each project's sustainability.

The sustainment review for the three-base BLB Group project consisting of Barksdale Air Force Base (AFB), Langley AFB, and Joint Base Anacostia Bolling identified an estimated $100 million shortfall in sustainment funding over the next 10 years, which would have potentially impacted the overall viability of the project. These sustainment funding shortfalls would likely have led to a debt service issue if occupancy was impacted by the deteriorating housing product at the project. Therefore, on December 5, 2019, the Office of Management and Budget (OMB) approved a restructure of the project. The modification was completed on May 8, 2020 and was not the result of short-term debt service funding issues. It included a modification of the government direct loan. The modification cost, using Air Force budgetary authority, was $56.0 million. The subsidy cost allowance portion of the modification is $52.4 million and referenced in Table 7D and 7F. The $52.4 million is used to decrease the principal balance of the $31.0 billion debt to the Treasury, while $3.6 million is the modification adjustment transfer that was initiated by MHPI and remitted to Treasury's special receipt account. As a condition of the restructure, the Air Force also obtained a commensurate concession from the project owner.

There was no single effective discount rate used in calculating the modification. The present value (PV) factors were applied to each cash flow year based on OMB's PV factors. The basis for recognizing a gain or loss on the modification of the loan is the difference between the net present value (NPV) before and after the modification. In this specific modification, the Air Force transferred Military Construction (MILCON) funding to MHPI to cover additional costs.

OTHER MHPI PROJECTS UNDER REVIEW

Currently the following projects are under review and subject to possible modification:

- Two Air Force projects, Air Education and Training Command (AETC I) and Robins AFB, had debt coverage ratios of less than 1.05, requiring the application of additional risk of repayment factors during the FY 2020 subsidy reestimates for the FY 2021 President's Budget. The Air Force is monitoring the Robins AFB project closely and reviewing restructure options for long-term financial viability. See below for additional detail on AETC I due to the catastrophic impact of Hurricane Michael at Tyndall AFB in October 2018.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

OTHER MHPI PROJECTS UNDER REVIEW (CONTINUED)

- In October 2018, Tyndall AFB suffered a direct hit by Hurricane Michael and all 867 privatized units (813 end state and 54 excess units) sustained damage. All units were damaged and the Basic Allowance for Housing (BAH) at Tyndall was and continues to be suspended. Tyndall provided 42.0% of total Net Operating Income (NOI) for the AETC I direct loan project consisting of Altus AFB, Oklahoma; Luke AFB, Arizona; Sheppard AFB, Texas; and Tyndall AFB, Florida. In January 2019, OMB approved a 12 month forbearance of the AETC I direct loan, which is now in an interest-only period pending the development of a restructuring plan.

The Air Force and project owner have adopted a two-phased approach, working closely with the senior lender in establishing a plan to restore and rebuild homes at Tyndall AFB with a central focus on achieving the stated mission of the project. The Phase I Tyndall restoration was approved by OMB on October 4, 2019. The Phase I plan uses funds from the Non-Debt Sized Units (separate units under the same project, but which have a separate cash flow waterfall) at the Northern Group and Western Group MHPI projects as a loan to the AETC Group I project through a credit facility to address a funding shortfall in the proposed restoration plan in Phase I. The loan is non-recourse, no interest, and payable at the end of the AETC I lease term. Phase II will include a restructure of the AETC I project to ensure long-term sustainment and is anticipated to include adjustments to the Government Direct Loan (GDL). While the insurance coverages for the AETC I project are comparable to those required by commercial lenders and investors for natural catastrophic events, the insurance payout will not provide all funding required to restore and rebuild the proposed housing end-state (593 homes). Some factors leading to a reduced end state for Tyndall include the following:

- The AETC I project is responsible for funding the 5.0% policy deductible ($11.0 million);
- The complex calculation formula for the policy payout is affected by depreciation offsets and planned restoration activities;
- The senior lender required payment on the senior loan in the amount of $33.0 million to compensate for the loss of income attributable to the 274 homes that will not be rebuilt; and
- The reduced end state supports the number of military tenants previously housed at Tyndall AFB as well as the returning mission.

At the end of the first quarter of FY 2020, the Air Force became aware that the project was experiencing delays in receiving the next major tranche of insurance proceeds ($100.0 to $200.0 million layer of funding). Two of the four insurers that owe the next $100.0 million of insurance proceeds are disputing the validity of the remaining claim. The project owner is working the dispute with its insurance broker and legal counsel, and requested the use of the Reinvestment Account funds to pay current and future litigation costs. Ongoing delays affect the delivery schedule of the units and may place repayment of the government direct loan at risk.

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES) ACT

In response to the Coronavirus Disease 2019 (COVID-19) outbreak, **Executive Order (EO) 13922** issued on May 14, 2020, authorizes the Chief Executive Officer of the International Development Finance Corporation (DFC) to originate and monitor loans on the Department's behalf while the Department maintains responsibility to commit, obligate, invoice and the financial reporting of the government direct loans. The delegation of authority through the 2-year period during which the requirements described in section 302(c)(1) of the Defense Production Act (DPA) (**50 U.S.C. 4532(c)(1)**) are waived pursuant to Title III of Division B of the Coronavirus Aid, Relief, and Economic Security Act, ending March 27, 2022. The EO delegates DPA loan authority for purchases and commitments to purchase, and takes additional actions to create, maintain, protect, and expand the domestic industrial base capabilities, including supply chains within the United States and its territories, needed to respond to the COVID-19 outbreak.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7A: SUMMARY OF DIRECT LOANS AND LOAN GUARANTEES

As of September 30 ($ in millions)	2020	2019
Direct Loans:		
Military Housing Privatization Initiative	$1,602.6	$1,738.7
Total Direct Loans	1,602.6	1,738.7
Total Defaulted Loan Guarantees	$-	$-
Total Loans Receivable	$1,602.6	$1,738.7
Loan Guarantee Liability:		
Military Housing Privatization Initiative	$44.1	$50.7
Total Loan Guarantee Liability	$44.1	$50.7

LOANS RECEIVABLE

Direct loans are reported at the net present value (NPV) of the following projected cash flows:

- Loan disbursements;
- Repayment of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.

TABLE 7B: DIRECT LOANS OBLIGATED AFTER FY 1991

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative		
Loans Receivable Gross	$1,755.2	$1,780.9
Allowance for Subsidy Cost (Present Value)	(152.6)	(42.2)
Value of Assets Related to Direct Loans, Net	1,602.6	1,738.7
Direct Loans, Net	$1,602.6	$1,738.7

Total Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans. Interest is calculated using the interest earned method.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7C: TOTAL AMOUNT OF DIRECT LOANS DISBURSED

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$-	$46.4

TABLE 7D: SUBSIDY EXPENSE FOR DIRECT LOAN BY PROGRAM

TABLE 7D.1: SUBSIDY EXPENSE FOR NEW DIRECT LOANS DISBURSED

As of September 30 ($ in millions)	2020				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$-	$-	$-	$-	$-
	2019				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$3.7	$5.6	$-	$-	$9.3

TABLE 7D.2: DIRECT LOAN MODIFICATIONS AND REESTIMATES

As of September 30 ($ in millions)	2020			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$52.4	$17.5	$42.5	$60.0
	2019			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$-	$(5.6)	$(19.3)	$(24.9)

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7D.3: TOTAL DIRECT LOAN SUBSIDY EXPENSE

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$112.4	$(15.6)

See the MHPI Modification section at the beginning of this Note for an explanation of the $52.4 million direct loan modification.

TABLE 7E: BUDGET SUBSIDY RATES FOR DIRECT LOANS FOR THE CURRENT YEAR

As of September 30 ($ in millions)	2020				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2020 and FY 2019; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The budget assumption discount rates are part of the economic assumptions for the budget year of obligation. Economic assumptions include the interest rates used for discounting cash flows, the rate of inflation, and may include other assumptions as applicable to a particular program. They also include the interest rate charged to the borrower on the loan, if the rate is tied to a variable benchmark, such as the rate on specified Treasury securities.

The rates in Table 7E cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from the current year (when applicable) and prior-year loan guarantees. Subsidy expense reported in the current year also includes re-estimates.

Agencies are required to re-estimate the subsidy cost throughout the life of each direct loan or loan guarantee to account for differences between the original assumptions of cash flow and actual cash flow or revised assumptions about future cash flow. These re-estimates represent additional costs or savings to the Government, new forecasts about future economic conditions, and other events and improvements in the methods used to estimate future cash flows.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7F: SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES FOR POST FY 1991 DIRECT LOANS

As of September 30 ($ in millions)	2020	2019
Beginning Balance of the Subsidy Cost Allowance	$42.2	$62.2
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	-	3.7
Default Costs (Net of Recoveries)	-	5.6
Total of the Above Subsidy Expense Components	-	9.3
Adjustments:		
Loan Modifications	52.4	-
Subsidy Allowance Amortization	(2.0)	(4.1)
Other	-	(0.3)
Ending Balance of the Subsidy Cost Allowance Before Reestimates		
Add or Subtract Subsidy Reestimates by Component:	92.6	67.1
Interest Rate Reestimates	17.5	(5.6)
Technical/Default Reestimates	42.5	(19.3)
Total of the Above Reestimates Components	60.0	(24.9)
Ending Balance of the Subsidy Cost Allowance	$152.6	$42.2

The data used for budgetary subsidiary cost estimates are updated, or re-estimated, annually after the end of the fiscal year to reflect actual loan performance and to incorporate any changes in assumptions about future loan performance. An upward re-estimate indicates that insufficient funds had been paid to the financing account. A downward re-estimate indicates that too much subsidy had been paid to the financing account.

In cases where agencies execute a risk category on a loan-by-loan basis, increases or decreases in subsidy cost for different loans within the same cohort and risk category will be netted against each other; that is, loans which require increased subsidies may first draw on the excess from any risk categories within the cohort where the re-estimate shows a subsidy decrease. Characteristics or indicators that may predict cost include the loan-to-value ratio; the relationship between the loan interest rate and relevant market rates; type of school attended for education loans; country risk categories for international loans; various asset or income rations; and major contract terms.

See the MHPI Modification section at the beginning of this Note for an explanation of the $52.4 million Loan Modification Adjustment on the table above and on Table 7D.2.

TABLE 7G: DEFAULTED GUARANTEED LOANS

There were no defaulted loan guarantees in FY 2020 or FY 2019.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

LOAN GUARANTEE LIABILITY

Loan guarantee liabilities are reported at the NPV. The cost of the loan guarantee is the NPV of the estimated projected cash flows of payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Department including origination and other fees, penalties, and recoveries.

In estimating default costs, the following risk factors are considered: (a) loan performance experience; (b) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (c) financial and other relevant characteristics of borrowers; (d) the value of collateral to the loan balance; (e) changes in recoverable value of collateral; and (f) newly developed events that would affect the performance of the loan. Improvements in methods to re-estimate defaults also are considered.

TABLE 7H.1: GUARANTEED LOANS OUTSTANDING

As of September 30 ($ in millions)	2020		2019	
	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$943.2	$943.2	$960.4	$960.4

TABLE 7I: LIABILITY FOR LOAN GUARANTEES

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$44.1	$50.7
Total Loan Guarantee Liability	$44.1	$50.7

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7J: SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM

TABLE 7J.1: SUBSIDY EXPENSE FOR NEW LOAN GUARANTEES

As of September 30 ($ in millions)	2020				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ -	$ -	$ -	$ -	$ -
	2019				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ -	$ -	$ -	$ -	$ -

TABLE 7J.2: MODIFICATIONS AND REESTIMATES

As of September 30 ($ in millions)	2020				
		Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$	-	$(1.8)	$(6.1)	$(7.9)
	2019				
		Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$	-	$(1.9)	$(7.3)	$(9.2)

TABLE 7J.3: TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

As of September 30 ($ in millions)	2020	2019
Military Housing Privatization Initiative	$(7.9)	$(9.2)

NOTE 7: DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7K: BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR

As of September 30	2020				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2020 and FY 2019; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

These rates cannot be applied to loan guarantees disbursed during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes re-estimates. The subsidy expense for new loan guarantees reported in the current year results from both current year (when applicable) and prior-year agreements.

TABLE 7L: SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES FOR POST-FY 1991 LOAN GUARANTEES

As of September 30 ($ in millions)	2020	2019
Beginning Balance of the Loan Guarantee Liability	$50.7	$58.4
Adjustments:		
Interest Accumulation on the Liability Balance	1.3	1.5
Ending Balance of the Loan Guarantee Liability Before Reestimates	52.0	59.9
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(1.8)	(1.9)
Technical/Default Reestimates	(6.1)	(7.3)
Total of the Above Reestimate Components	(7.9)	(9.2)
Ending Balance of the Loan Guarantee Liability	$44.1	$50.7

ADMINISTRATIVE EXPENSES

Administrative Expenses are limited to separately identified expenses in support of the direct loan program and the loan guarantee program.

NOTE 8: INVENTORY AND RELATED PROPERTY, NET

TABLE 8A: INVENTORY AND RELATED PROPERTY

As of September 30 ($ in millions)	2020	*Restated* 2019
Inventory, Net	$108,748.3	$105,832.5
Operating Materials & Supplies, Net	200,486.8	185,993.9
Stockpile Materiel, Net	975.4	779.2
Total Inventory and Related Property, Net	$310,210.5	$292,605.6

RESTATEMENT

The Department corrected a $1.1 billion understatement (net) of operating materials and supplies. See Table 8C. *OM&S Categories* and Note 28, *Restatements* for further information.

INVENTORY, NET

TABLE 8B: INVENTORY CATEGORIES

As of September 30 ($ in millions)	2020			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$68,627.4	$(413.4)	$68,214.0	LAC, MAC
Held in Reserve for Future Sale	991.3	-	991.3	LAC, MAC
Held for Repair	41,485.7	(5,465.1)	36,020.6	LAC, MAC
Raw Material	1,415.6	-	1,415.6	LAC, MAC
Work-in-Process	2,106.8	-	2,106.8	MAC
Excess, Obsolete and Unserviceable	591.7	(591.7)	-	NRV
Total	$115,218.5	$(6,470.2)	$108,748.3	

	2019			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
Held for Sale	$67,274.1	$(1.0)	$67,273.1	LAC, MAC
Held in Reserve for Future Sale	1,169.2	-	1,169.2	LAC, MAC
Held for Repair	40,518.8	(5,660.5)	34,858.3	LAC, MAC
Raw Material	1,234.1	-	1,234.1	LAC, MAC
Work-in-Process	995.2	-	995.2	LAC, MAC
Excess, Obsolete and Unserviceable	804.3	(501.7)	302.6	NRV
Total	$111,995.7	$(6,163.2)	$105,832.5	

Legend for Valuation Methods:

LAC = Latest Acquisition Cost, adjusted for holding gains and losses *MAC = Moving Average Cost* *NRV = Net Realizable Value*

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

GENERAL COMPOSITION OF INVENTORY

Inventory is tangible personal property that is held for sale, such as raw materials to be consumed in the production of goods for sale or in the provision of service for a fee, the value of inventory used in the production process, finished goods held for sale, and goods held for repair and eventual sale. Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns inventory items to a category based on asset type and condition.

INVENTORY RESTRICTIONS

The following types of inventory are subject to restrictions on use, sale, or disposition:

- Inventories maintained as war reserve materiel in accordance with **DoD Instruction 3110.06** with a recorded value of $2.6 billion in FY 2020 ($2.6 billion in FY 2019), consisting of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces;
- Defense Commissary Agency (DeCA) inventory with a recorded value of $313.6 million in FY 2020 ($315.5 million***** in FY 2019), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons; and
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of $111.5 million in FY 2020 ($115.5 million in FY 2019).

There are no known restrictions on inventory disposition related to environmental or other liabilities.

***** DeCa's FY 2019 restricted inventory disclosed above is $315.5 million; however, it was inadvertently displayed in the FY 2019 DoD AFR narrative as $384.7 million. This error did not affect the Balance Sheet or the table amounts in the FY 2019 AFR, only the narrative disclosure.

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

OPERATING MATERIALS & SUPPLIES, NET

TABLE 8C: OM&S CATEGORIES

As of September 30 ($ in millions)	2020			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$143,021.4	$-	$143,021.4	Note 1
Held in Reserve for Future Use	38,460.4	-	38,460.4	Note 1
Held for Repair	14,700.4	-	14,700.4	Note 1
In Development	4,304.6	-	4,304.6	Note 1
Excess, Obsolete and Unserviceable	3,165.2	(3,165.2)	-	NRV
Total	$203,652.0	$(3,165.2)	$200,486.8	

	Restated 2019			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	$127,097.8	$-	$127,097.8	Note 1
Held in Reserve for Future Use	24,615.9	-	24,615.9	Note 1
Held for Repair	31,234.4	-	31,234.4	Note 1
In Development	3,045.8	-	3,045.8	Note 1
Excess, Obsolete and Unserviceable	3,050.0	(3,050.0)	-	NRV
Total	$189,043.9	$(3,050.0)	$185,993.9	

Legend for Valuation Methods:

Note 1: Direct Method, Historical Cost, Moving Average Cost, Replacement Price and Standard Price *NRV = Net Realizable Value*

GENERAL COMPOSITION OF OM&S

OM&S include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns OM&S items to a category based on asset type and condition.

During FY 2020, the Department restated FY 2019 OM&S. The restatement corrected an understatement of $1.1 billion (net), primarily for the Department of the Army's War Reserve Stocks for Allies (WRSA) and Army retail stockpile. By category, the correction was for an understatement of $1.1 billion for Held in Reserve for Future Use; an overstatement of $10.8 million for Held for Use; and an overstatement of $2.9 million for Held for Repair.

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

OM&S RESTRICTIONS

Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements based on condition. However, obsolete and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

OTHER DISCLOSURES

The FASAB issued **SFFAS 48**, permitting alternative methods in establishing opening balances, effective for periods beginning after September 30, 2016 with early implementation allowed. Some DoD Components used the deemed cost measures from this standard for FY 2016; additional DoD Components used the deemed cost measures from the standard in FY 2017 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and actual historical cost as the basis for valuation.

STOCKPILE MATERIAL, NET

TABLE 8D: STOCKPILE MATERIAL CATEGORIES

As of September 30 ($ in millions)	2020			
	Stockpiles Materiel Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
Held for Sale	$17.4	$-	$17.4	MAC
Held in Reserve for Future Sale	958.0	-	958.0	MAC
Total	$975.4	$-	$975.4	

	2019			
	Stockpiles Materiel Gross Value	Allowance for Gains (Losses)	Stockpile Materiel, Net	Valuation Method
Held for Sale	$28.5	$-	$28.5	MAC
Held in Reserve for Future Sale	750.7	-	750.7	MAC
Total	$779.2	$-	$779.2	

Legend for Valuation Methods:
MAC = Moving Average Cost

NOTE 8: INVENTORY AND RELATED PROPERTY, NET (CONTINUED)

GENERAL COMPOSITION OF STOCKPILE MATERIEL

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies. The Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund reported stockpile materials for FY 2020 with a net value of $746.4 million and an estimated market value of $869.2 million.

Beginning in FY 2020, the Defense Health Programs (DHP) reported stockpile materials with a net value $229.0 million. The estimated market value is unknown at this time.

STOCKPILE MATERIEL RESTRICTIONS

Materiel held by the National Defense Stockpile is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed except for (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; or (4) authorization by law.

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale. Stockpile materials held for sale includes ores, metals, and alloys authorized for sale. For additional information on Defense Logistics Agency's mission related to the National Defense Stockpile and materials of interest, please see: **DLA Strategic Materials**.

The DHP's stockpile materiel includes medicine, vaccines and other biological products, medical devices and other supplies.

NOTE 9: GENERAL PP&E, NET

TABLE 9A: MAJOR GENERAL PP&E ASSET CLASSES

As of September 30 ($ in millions)	2020				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Land	N/A	N/A	$9,106.1	N/A	$9,106.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	470,179.1	(302,640.9)	167,538.2
Leasehold Improvements	S/L	Lease Term	705.5	(375.7)	329.8
Software	S/L	2 - 5 or 10	11,450.6	(5,113.3)	6,337.3
General Equipment	S/L	Various	1,152,554.5	(677,430.3)	475,124.2
Assets Under Capital Lease	S/L	Lease Term	367.1	(294.9)	72.2
Construction in Progress	N/A	N/A	131,531.7	N/A	131,531.7
Other	N/A	N/A	10,059.0	(9,593.3)	465.7
Total General PP&E			$1,785,953.6	$(995,448.4)	$790,505.2
	Restated 2019				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Land	N/A	N/A	$9,094.2	N/A	$9,094.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	460,981.6	(290,783.6)	170,198.0
Leasehold Improvements	S/L	Lease Term	546.3	(318.0)	228.3
Software	S/L	2 - 5 or 10	9,909.1	(4,868.3)	5,040.8
General Equipment	S/L	Various	1,154,130.0	(681,256.4)	472,873.6
Assets Under Capital Lease	S/L	Lease Term	366.2	(283.8)	82.4
Construction in Progress	N/A	N/A	108,179.7	N/A	108,179.7
Other	N/A	N/A	10,541.5	(10,043.8)	497.7
Total General PP&E			$1,753,748.6	$(987,553.9)	$766,194.7

* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings

Legend for Depreciation/Amortization Methods:
S/L = Straight Line Method

The Department's General PP&E consists primarily of buildings and structures, furniture and fixtures, equipment, vehicles, internal use software, and land.

RESTATEMENT

The Department corrected a $2.4 billion overstatement of the net book value of Buildings, Structures, and Facilities, primarily related to the net value of real property transfers that the Department of the Army had previously capitalized and reported within its financial statements in error. See Note 28, *Restatements* for further information.

NOTE 9: GENERAL PP&E, NET (CONTINUED)

OTHER DISCLOSURES

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Department's use and disposal of real property (land and buildings) located outside the United States.

The Department uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The FASAB issued **SFFAS 50**, permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD Components are excluded from General PP&E opening balances in FY 2020, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 23,521,368 in FY 2020 and 20,926,485 in FY 2019.

Other General PP&E includes Real Property held in Caretaker Status. Caretaker Status is defined as property under the legal jurisdiction of the Department, such as Base Realignment and Closure assets, awaiting further disposition, sale, or transfer to another entity.

HERITAGE ASSETS AND STEWARDSHIP LAND

SFFAS 29 provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. The Department's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

As the Department's mission to provide the military forces needed to deter war and protect the security of our country has been executed, the Department has become a large scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's heritage assets and stewardship land is an essential part of the Department's mission.

The Department, with minor exceptions, uses the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets. Multi-use heritage assets are recognized and presented with General PP&E in the basic financial statements, and additional information for the multi-use heritage assets is included with the heritage assets information below and in the Required Supplementary Information section.

The Department is unable to identify quantities of heritage assets and stewardship land added through donation or devise (e.g., a clause in a will leaving real estate to the Department) due to limitations of financial and non-financial management processes and systems. However, the Department continues to progress towards this goal. The Department is also working towards disclosing transfers of heritage assets and stewardship land. Differences in heritage asset quantities between the FY 2019 ending unit counts and the FY 2020 beginning unit counts resulted from periodic reviews.

Heritage assets receive such designation, and have such designation withdrawn, through the accessioning and deaccessioning procedures for collections or through evaluation in compliance with the **National Historic Preservation Act**. Designation is in accordance with the standards articulated with the collection scopes and collecting plans, or by application of the criteria of the National Register of Historic Places.

Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. The Department defines these as follows in accordance with the National Historic Preservation Act

- Buildings and Structures listed, or eligible for listing, on the National Register of Historic Places, including multi-use heritage assets;
- Archeological Sites listed, or eligible for listing, on the National Register of Historic Places; and
- Museum Collection Items considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

NOTE 9: GENERAL PP&E, NET (CONTINUED)

TABLE 9B: HERITAGE ASSETS

For the year ended September 30, 2020 (physical unit count) Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	47,339	316	(15,834)	31,821
Archeological Sites	10,768	4,597	(1,278)	14,087
Museum Collection Items (Objects, Not Including Fine Art)	1,300,515	3,929	(24,040)	1,280,404
Museum Collection Items (Objects, Fine Art)	60,078	901	(273)	60,706

Stewardship land represents land and land rights owned by the Department, but not acquired for, or in connection with items of General PP&E. All land provided to the Department from the public domain at no cost, regardless of its use, is classified as Stewardship Land.

The Department uses Stewardship Land for military bases, installations, training ranges, or other military mission related functions.

Stewardship land is categorized and reported in acres based on the predominant use of the land.

TABLE 9C: STEWARDSHIP LAND

For the year ended September 30, 2020
(acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	1,592	-	(52)	1,540
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	8,274	5	(7)	8,272
9140	Public Land	5	-	-	5
Total Stewardship Lands		9,871	5	(59)	9,817
9130	Licensed and Permitted Land	729	-	(1)	728
9210	Land Easement	20	-	(10)	10
9220	In-leased Land	102	-	-	102
9230	Foreign Land	297	-	-	297
Total All Other Lands		1,148	-	(11)	1,137
Grand Total		11,019	5	(70)	10,954

The four categories of Stewardship land – Government Owned Land; State Owned Land; Withdrawn Public Land (not available for settlement, sale, location, or entry); and Public Land (held by local governments) – are held in public trust.

The balance for All Other Lands consists of Licensed and Permitted Land, Land Easement, In-Leased Land, and Foreign Land. These categories are not included in the total amount of Stewardship Land.

The Department's methods of acquisition and withdrawal of stewardship land are as follows:

- Acquiring additional land through donation or withdrawals from public domain,
- Identifying missing land records,
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD Component,
- Identifying cemeteries and historical facilities,
- Disposing of BRAC property or excess installations, and
- Privatizing residential community initiatives programs.

NOTE 9: GENERAL PP&E, NET (CONTINUED)

SUMMARY OF ACTIVITY

To support the Financial Report of the United States Government compilation process for General PP&E, Net, estimated capitalized acquisitions, dispositions, revaluations, depreciation expense, net transfers without reimbursement and other activity for the current year are provided in Table 9D. Other(+/-) is the net amount of activity that could not otherwise be isolated into one of the other categories to arrive at the General PP&E, Net balance at the end of the year.

Per **OMB Circular A-136**, in the initial year of implementation, the disclosure requirements that were applicable in prior reporting periods are not required for comparative presentations.

TABLE 9D: GENERAL PP&E, NET - SUMMARY OF ACTIVITY

For the period ended September 30 ($ in millions)	2020
General PP&E, Net beginning of year	$766,194.7
Capitalized acquisitions	28,361.3
Dispositions	(849.0)
Revaluations(+/-)	51,373.5
Depreciation expense	(54,759.7)
Transfers in/(out) without reimbursement	222.2
Other (+/-)	(37.8)
General PP&E, Net end of year	$790,505.2

NOTE 10: OTHER ASSETS

TABLE 10: OTHER ASSETS

As of September 30 ($ in millions)	2020	2019
Intragovernmental Other Assets		
Advances and Prepayments	$879.6	$983.1
Other Assets	123.4	123.4
Total Intragovernmental Other Assets	1,003.0	1,106.5
Non-Federal Other Assets		
Outstanding Contract Financing Payments	19,655.1	18,241.1
Advances and Prepayments	845.5	1,107.6
Other Assets (With the Public)	232.6	194.4
Total Non-Federal Other Assets	20,733.2	19,543.1
Total Other Assets	$21,736.2	$20,649.6

INTRAGOVERNMENTAL OTHER ASSETS

Advances and Prepayments are amounts advanced or prepaid to other federal agencies.

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of $123.3 million in FY 2020 and FY 2019), held by the Department of Energy. In accordance with the **Department of Defense Appropriations Act of 1993**, these assets are maintained as a **Strategic Petroleum Reserve** for national defense purposes.

NON-FEDERAL OTHER ASSETS

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, includes $25.9 billion in FY 2020 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets. In comparison, FY 2019 Outstanding Contract Financing Payments included $18.2 billion in contract financing payments made to future performance of services, receipt of goods, expenditures or receipt of other assets.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments.

In FY 2020, Other Assets (With the Public) consist primarily of General PP&E permanently removed but awaiting disposal. FY 2019, Other Assets (With the Public) consisted primarily of inventory returns pending credit from vendors; however, $147.5 million was later determined to be in-transit inventory. The remaining FY 2019 balance ($46.9 million) consisted primarily of General PP&E permanently removed but awaiting disposal.

NOTE 11: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

TABLE 11: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30 ($ in millions)	2020	Restated 2019
Intragovernmental Liabilities		
Accounts Payable	$76.1	$40.1
Debt	0.1	0.3
Other	2,220.6	1,913.3
Total Intragovernmental Liabilities	2,296.8	1,953.7
Non-Federal Liabilities		
Accounts Payable	2,143.0	2,318.2
Military Retirement and Other Federal Employee Benefits	1,492,289.8	1,525,256.1
Environmental and Disposal Liabilities	72,307.7	73,097.0
Other Liabilities	15,533.6	14,227.1
Total Non-Federal Liabilities	1,582,274.1	1,614,898.4
Total Liabilities Not Covered by Budgetary Resources	1,584,570.9	1,616,852.1
Total Liabilities Covered by Budgetary Resources	1,235,039.5	1,143,282.4
Total Liabilities Not Requiring Budgetary Resources	-	-
Total Liabilities	$2,819,610.4	$2,760,134.5

RESTATEMENT

The Department corrected a $111.0 million understatement of Total Liabilities Covered by Budgetary Resources. See Note 28, *Restatements* for further information.

INTRAGOVERNMENTAL LIABILITIES

Accounts payable consists primarily of amounts due to Treasury for subsidy payables for direct loans under MHPI. See Note 7. *Direct Loan and Loan Guarantees, Non-Federal Borrowers* for more information on MHPI.

Other Liabilities consists primarily of unfunded liabilities for Judgment Fund, Federal Employees Compensation Act, and Unemployment Insurance.

NON-FEDERAL LIABILITIES

Accounts Payable primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2020, these liabilities primarily consist of $901.7 billion in pension liabilities and $583.5 billion in

NOTE 11: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (CONTINUED)

NON-FEDERAL LIABILITIES (CONTINUED)

health benefit liabilities. In FY 2019, these liabilities primarily consist of $940.8 billion in pension liabilities and $576.9 billion in health benefit liabilities. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details.

Environmental and Disposal Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal. Refer to Note 14, *Environmental and Disposal Liabilities,* for additional details.

Other Liabilities consists primarily of unfunded annual leave and contingent liabilities.

TOTAL LIABILITIES

Budgetary resources include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without contingency having to be met first.

Liabilities Not Covered by Budgetary Resources require future congressional action before budgetary resources can be provided; 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).

Liabilities Not Requiring Budgetary Resources have not in the past and will not in the future require the use of budgetary resources.

NOTE 12: DEBT

TABLE 12: DEBT

As of September 30 ($ in millions)	2020		
	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$1,714.1	$(51.5)	$1,662.6
Total Agency Debt	1,714.1	(51.5)	1,662.6
Total Debt	$1,714.1	$(51.5)	$1,662.6

	2019		
	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$1,685.7	$28.4	$1,714.1
Total Agency Debt	1,685.7	28.4	1,714.1
Total Debt	$1,685.7	$28.4	$1,714.1

The Department's debt consists of principal amounts due to the Treasury. The Department borrows funds from the Treasury for the Military Housing Privatization Initiative and the Washington Aqueduct Capital Improvements Project. See Note 7, *Direct Loan and Loan Guarantees*, for more information pertaining to MHPI.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

The Department complies with the requirements of **SFFAS 33**, which directs that the long-term interest/discount rate, underlying inflation (cost of living adjustment, or COLA) rate and other economic assumptions be consistent with one another. A change in the interest/discount rate may cause other assumptions to change as well. SFFAS 33 also requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and postemployment benefits. SFFAS 33 provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

TABLE 13A: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30 ($ in millions)	2020		
Pension and Health Benefits	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Military Retirement Pensions	$1,794,054.2	$(892,379.0)	$901,675.2
Military Pre Medicare-Eligible Retiree Health Benefits	270,264.7	-	270,264.7
Military Medicare-Eligible Retiree Health Benefits	576,131.0	(262,934.3)	313,196.7
Total Pension and Health Benefits	2,640,449.9	(1,155,313.3)	1,485,136.6
Other Benefits			
FECA	5,337.6	-	5,337.6
Voluntary Separation Incentive Programs	174.1	(76.0)	98.1
DoD Education Benefits Fund	675.6	(675.6)	-
Other	7,427.0	(5,709.5)	1,717.5
Total Other Benefits	13,614.3	(6,461.1)	7,153.2
Total Military Retirement and Other Federal Employment Benefits	$2,654,064.2	$(1,161,774.4)	$1,492,289.8

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.6 trillion

	2019		
Pension and Health Benefits	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Military Retirement Pensions	$1,754,187.0	$(813,431.8)	$940,755.2
Military Pre Medicare-Eligible Retiree Health Benefits	254,832.8	-	254,832.8
Military Medicare-Eligible Retiree Health Benefits	573,219.1	(251,137.6)	322,081.5
Total Pension and Health Benefits	2,582,238.9	(1,064,569.4)	1,517,669.5
Other Benefits			
FECA	5,786.9	-	5,786.9
Voluntary Separation Incentive Programs	219.5	(93.5)	126.0
DoD Education Benefits Fund	786.7	(786.7)	-
Other	7,339.8	(5,666.1)	1,673.7
Total Other Benefits	14,132.9	(6,546.3)	7,586.6
Total Military Retirement and Other Federal Employment Benefits	$2,596,371.8	$(1,071,115.7)	$1,525,256.1

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method

Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.3 trillion

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

TABLE 13B: RECONCILIATION OF BEGINNING AND ENDING LIABILITY BALANCES FOR MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30 ($ in millions)	2020				
	Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$1,754,187.0	$254,832.8	$573,219.1	$1,006.2	$2,583,245.1
Expense:					
Normal Cost	37,145.7	10,746.9	12,250.2	187.9	60,330.7
Interest on the Liability Balance	59,245.7	9,103.9	20,301.6	28.9	88,680.1
Plan Amendments	15,537.8	-	-	-	15,537.8
Experience Losses (Gains)	3,811.8	(3,977.1)	(5,899.1)	(132.1)	(6,196.5)
Expenses Before Losses (Gains) from Actuarial Assumption Changes	115,741.0	15,873.7	26,652.7	84.7	158,352.1
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	5,390.7	(39,577.5)	-	(34,186.8)
Changes in Assumptions Other Than Trend	(15,200.0)	5,198.1	26,775.5	37.9	16,811.5
Losses (Gains) from Actuarial Assumption Changes	(15,200.0)	10,588.8	(12,802.0)	37.9	(17,375.3)
Total Expenses	100,541.0	26,462.5	13,850.7	122.6	140,976.8
Less: Benefit Outlays	60,673.8	11,030.6	10,938.8	279.1	82,922.3
Total Changes in Actuarial Liability	39,897.2	15,431.9	2,911.9	(156.5)	58,054.5
Ending Actuarial Liability	$1,794,054.2	$270,264.7	$576,131.0	$849.7	$2,641,299.6

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

TABLE 13B: RECONCILIATION OF BEGINNING AND ENDING LIABILITY BALANCES FOR MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

As of September 30 ($ in millions)	2019				
	Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Other	Total
Beginning Actuarial Liability	$1,616,398.1	$249,694.0	$535,318.1	$1,192.6	$2,402,602.8
Expense:					
Normal Cost	32,110.3	10,357.8	10,936.5	131.4	53,536.0
Interest on the Liability Balance	56,083.8	9,166.8	19,473.2	33.7	84,757.5
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	1,091.7	(6,049.4)	(9,261.9)	83.0	(14,136.6)
Expenses Before Losses (Gains) from Actuarial Assumption Changes	89,285.8	13,475.2	21,147.8	248.1	124,156.9
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(232.0)	14,926.6	-	14,694.6
Changes in Assumptions Other Than Trend	108,863.6	2,826.7	12,587.3	(163.7)	124,113.9
Losses (Gains) from Actuarial Assumption Changes	108,863.6	2,594.7	27,513.9	(163.7)	138,808.5
Total Expenses	198,149.4	16,069.9	48,661.7	84.4	262,965.4
Less: Benefit Outlays	60,360.5	10,931.1	10,760.7	270.8	82,323.1
Total Changes in Actuarial Liability	137,788.9	5,138.8	37,901.0	(186.4)	180,642.3
Ending Actuarial Liability	$1,754,187.0	$254,832.8	$573,219.1	$1,006.2	$2,583,245.1

The Other column is actuarial liability activity related to the Voluntary Separation Incentive Program and the DoD Education Benefits Fund.

PENSION AND HEALTH BENEFITS

MILITARY RETIREMENT PENSIONS

The Military Retirement Fund (MRF) is a nonrevolving trust fund. Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

The Military Retirement Fund is authorized by the **NDAA for FY 1984** to accumulate funds to pay pensions to retired military personnel and annuities to their survivors. The Military Retirement System is a single-employer, defined benefit plan. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

MILITARY RETIREMENT PENSIONS (CONTINUED)

Retirement System (**BRS**) is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan (**TSP**). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution.

INFORMATION RELATED TO MILITARY RETIREMENT FUND BENEFIT LIABILITIES

Each year the actuarial liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost; however, it is a complex calculation impacted by the other factors previously discussed, including revised actuarial assumptions, plan amendments, and experience.

The first column of Table 13A reflects two distinct types of liabilities related to MRF. The line entitled "Military Retirement Pensions" represents the actuarial liability for future pension benefits not yet paid, i.e., the present value of future benefits less the present value of future normal costs. The line entitled "Other" represents retirement benefits due and payable on the first business day of the next reporting period.

The second column of Table 13A for MRF, "Assets Available to Pay Benefits," differ from those reported on the balance sheet for MRF. MRF's balance sheet assets consist primarily of investments, the value of which is based on the fully amortized cost or "book value" of the securities (see Note 5, *Investments and Related Interest*). The value of assets available to pay benefits presented in Table 13A is based on available budgetary funding. The difference between investments and assets available to pay benefits is the premium on U.S. Treasury Securities. At the time of purchase, budgetary funding is reduced by the premium on U.S. securities because the premium on securities is no longer a budgetary resource.

Table 13A also discloses the "Unfunded Liabilities", i.e. liabilities not covered by budgetary resources, which is the difference between the "Liabilities" and the "Assets Available to Pay Benefits."

INFORMATION RELATED TO MRF'S ACTUARIAL COST METHOD

As prescribed by law, the MRF is funded using the Aggregate Entry-Age Normal (AEAN) method. Per SFFAS No. 5, AEAN is also used to compute the actuarial liabilities reported herein. AEAN is a method whereby the costs of future retirement and survivor benefits for a new-entrant cohort are spread over the projected salaries of that group.

OACT used the assumptions listed in Table 13C to calculate the FY 2020 actuarial liability.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

TABLE 13C: ACTUARIAL ASSUMPTIONS FOR MILITARY RETIREMENT PENSION LIABILITY

Projection Year	Inflation (COLA)		Salary		Interest
FY 2020	1.6%	(actual)	3.1%	(actual)	3.2%
FY 2021	2.0%	(estimated)	3.0%	(estimated)	3.2%
Long Term	1.6%		1.8%		3.2%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method

Market Value of Investments in Market-Based and Marketable Securities: $1,218.7 billion

Assumed Interest Rate: 3.2%

Historically, the initial unfunded liability of the program was amortized over a 50-year period. Effective FY 2008, the initial unfunded liability is amortized over a 42-year period to ensure annual payments cover interest on the unfunded actuarial liability, with the last payment expected October 1, 2025. All subsequent gains and losses experienced by the system are amortized over a 30-year period.

INFORMATION RELATED TO MRF'S REVENUES

The MRF receives revenues from three sources: (1) interest earnings on MRF assets, (2) monthly contributions from the Military Services, and (3) an annual contribution from the U.S. Treasury. The contribution from the U.S. Treasury is paid into the MRF at the beginning of each fiscal year and represents the amortizations of (1) the unfunded liability for service performed before October 1, 1984, and (2) subsequent actuarial gains and losses. Starting October 1, 2004, Public Law 108-136 requires a Treasury contribution for the normal cost amount for the concurrent receipt provisions under Sections 1413a and 1414 in addition to the unfunded liability amortization payment. The DoD Board of Actuaries (the Board) approves methods and assumptions used to determine the amounts for contributions by the U.S. Treasury and the Military Services, and the Secretary of Defense directs the Secretary of Treasury to make the required payment.

See Note 5, *Investments and Related Interest* and Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information related to MRF's investments and contributions received.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

MILITARY RETIREMENT HEALTH BENEFITS (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. OACT calculates actuarial liabilities annually using assumptions and actual experience.

For the FY 2020 actuarial liability calculation, OACT used the assumptions listed in Table 13D.

TABLE 13D: ACTUARIAL ASSUMPTIONS FOR MRHB LIABILITY

MRHB Medical Trend	FY 2019 - FY 2020	Ultimate Rate FY 2044
Non-Medicare Inpatient (Direct Care)	1.43%	3.60%
Non-Medicare Outpatient (Direct Care)	1.66%	3.60%
Non-Medicare Prescriptions (Direct Care)	3.60%	3.60%
Non-Medicare Inpatient (Purchased Care)	0.27%	3.60%
Non-Medicare Outpatient (Purchased Care)	0.16%	3.60%
Non-Medicare Prescriptions (Purchased Care)	4.63%	3.60%
U.S. Family Health Plan (USFHP) (Purchased Care)	1.28%	3.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method

Assumed Interest Rate: 3.3%

For the FY 2020 financial statement valuation, a single equivalent medical cost trend rate of 4.06% was used to calculate the total retiree health benefits liability which includes MRHB and Medicare- Eligible Retiree Health Care Fund liabilities.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND (MERHCF) BENEFITS

In accordance with **NDAA for FY 2001**, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Medicare-Eligible Retiree Health Care Board of Actuaries approves assumptions and methods used in actuarial valuations of the MERHCF to calculate normal cost contributions. OACT calculates the actuarial liabilities annually using assumptions and actual experience per SFFAS 33 guidance.

OACT used the assumptions listed in Table 13E to calculate the FY 2020 actuarial liability.

TABLE 13E: ACTUARIAL ASSUMPTIONS FOR MERHCF LIABILITY

MRHB Medical Trend	FY 2019 - FY 2020	Ultimate Rate FY 2044
Medicare Inpatient (Direct Care)	1.19%	3.60%
Medicare Outpatient (Direct Care)	1.42%	3.60%
Medicare Prescriptions (Direct Care)	4.75%	3.60%
Medicare Inpatient (Purchased Care)	0.20%	3.60%
Medicare Outpatient (Purchased Care)	0.93%	3.60%
Medicare Prescriptions (Purchased Care)	4.84%	3.60%
Medicare USFHP (Purchased Care)	1.15%	3.60%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $364.0 billion
Assumed Interest Rate: 3.3%

The FY 2020 MERHCF liability includes Medicare liabilities for all Uniformed Services. The $576.1 billion liability includes $562.1 billion for the Department, $12.4 billion for the Coast Guard, $1.5 billion for the Public Health Service, and $0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2019 $573.2 billion liability included $559.4 billion for the Department, $12.3 billion for the Coast Guard, $1.4 billion for the Public Health Service, and $0.1 billion for NOAA.

The FY 2020 normal cost contributions from each of the Uniformed Services were $7.8 billion from the Department, $202.9 million from the Coast Guard, $29.1 million from the Public Health Service, and $1.4 million from NOAA. The FY 2019 contributions from each of the Uniformed Services were $7.5 billion from the Department, $199.4 million from the Coast Guard, $28.9 million from the Public Health Service, and $1.4 million from NOAA.

For the FY 2020 financial statement valuation, a single equivalent medical cost trend rate of 4.06% was used to calculate the total retiree health benefits liability which includes MRHB and MERHCF liabilities.

FEDERAL EMPLOYEES' COMPENSATION ACT (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS (CONTINUED)

FEDERAL EMPLOYEES' COMPENSATION ACT (FECA) (CONTINUED)

(**TNC Yield Curve**) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 2.72% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.38% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2019 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years are provided in Table 13F.

TABLE 13F: ACTUARIAL ASSUMPTIONS FOR FECA LIABILITY

CBY	COLA	CPIM
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025+	2.30%	3.94%

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

VOLUNTARY SEPARATION INCENTIVE (VSI) PROGRAM

The **VSI Program** was established by **NDAA for FYs 1992 and 1993** to reduce the number of military personnel on active duty. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 1.7% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

The Market Value of Investments in Market-based and Marketable Securities is $83.8 million for FY 2020 and $95.7 million for FY 2019.

DOD EDUCATION BENEFITS FUND (EBF)

The EBF was established by **NDAA for FY 1985** to recruit and retain military members and aid in the readjustment of military members to civilian life. The OACT calculates the actuarial liability annually based on the assumed interest rate of 2.75% as approved by the DoD Board of Actuaries.

The Market Value of Investments in Market-based and Marketable Securities is $1.1 billion for both FY 2020 and FY 2019.

OTHER FEDERAL EMPLOYMENT BENEFITS

Other Federal Employment Benefits primarily consists of an estimated liability for incurred-but-not-reported medical claims not processed prior to fiscal year-end and accrued pensions and annuities related to certain life insurance and pension plans.

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES

TABLE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30 ($ in millions)	2020	2019
Environmental Liabilities—Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$13,651.1	$13,915.9
Active Installations - Military Munitions Response Program (MMRP)	3,203.9	3,498.3
Formerly Used Defense Sites - IRP and BD/DR	3,032.2	2,736.6
Formerly Used Defense Sites - MMRP	7,748.5	7,735.4
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	1,756.1	2,197.7
Environmental Closure Requirements	8,373.0	8,619.8
Asbestos	5,047.9	3,763.2
Non-Military Equipment	86.8	27.1
Other	2,129.6	2,064.0
Base Realignment and Closure Installations		
IRP	5,075.4	4,880.9
MMRP	900.7	778.9
Environmental Corrective Action/Closure Requirements	368.1	334.1
Asbestos	9.6	9.4
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	16,530.9	17,046.1
Non-Nuclear Powered Military Equipment	741.6	767.4
Other Weapon Systems	380.5	377.9
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency	2,314.1	2,442.1
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	3,691.9	4,930.1
Total Environmental and Disposal Liabilities	$75,041.9	$76,124.9

The Department has cleanup requirements for the Defense Environmental Restoration Program (**DERP**) for active installations, BRAC installations, and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not covered by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.

Other Accrued Environmental Liabilities, Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program (**FUSRAP**) remediation of radiological contamination. The FUSRAP is a shared program between the Department and the Department of Energy's U.S. Atomic Energy and Weapons Program.

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES (CONTINUED)

ENVIRONMENTAL AND DISPOSAL LIABILITIES INVOLVING MULTIPLE COMPONENT ENTITIES

There are instances when a component reporting entity recognizes General PP&E during its useful life differs from the component reporting entity that will eventually be responsible for the future outflow of resources required for cleanup when the asset is removed from service. **FASAB Interpretation 9**, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 and SFFAS 6*, clarifies during the asset's useful life the reporting entity owning the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for General PP&E on its Balance Sheet. When the asset is transferred to the entity designated responsible by law, statute or policy for cleanup, the General PP&E and the associated liability must be de-recognized by the component reporting entity that recognized them during the General PP&E's useful life and recognized by the component reporting entity responsible for clean-up and liquidating the liability. De-recognition and recognition of the general PP&E and liability must be performed in accordance with existing accounting standards. The Component recording the environmental liability must have sufficient supporting documentation to establish its responsibility for the liability.

SOURCES FOR CLEANUP REQUIREMENTS

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapon systems, and environmental costs related to BRAC actions.

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act (**CERCLA**), Superfund Amendments and Reauthorization Act of 1986 (**SARA**), Resource Conservation and Recovery Act (**RCRA**) or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The **Atomic Energy Act of 1954**, as amended, assures the proper management of source, special nuclear, and byproduct materiel. The Department coordinates nuclear power actions with the Department of Energy. The **Nuclear Waste Policy Act of 1982**, as amended, requires owners and generators of high-level nuclear waste and spent nuclear fuel to pay their share of the cost of the program. The **Low Level Radioactive Waste Policy Amendments Act of 1985**, as amended, provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on the **NDAA for FY 1986**, directing the Department to destroy the unitary chemical stockpile in accordance with the Chemical Weapons Convention Treaty.

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES (CONTINUED)

METHODS FOR ASSIGNING TOTAL CLEANUP COSTS TO CURRENT OPERATING PERIODS

The Department uses engineering estimates and independently validated models to project environmental costs. The models include the Remedial Action Cost Engineering Requirements (**RACER**) application and the Normalization of Data System. The Department validates the models in accordance with **DoD Instruction 5000.61** and estimates liabilities based on data received during preliminary assessment and site investigation. The Department primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, the Department complies with accounting standards to charge costs to current and/or future operating periods. The Department expensed cleanup costs for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, the Department expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses associated environmental costs using two methods – (1) physical capacity for operating landfills and (2) life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for Heritage Assets and Stewardship Land and certain other General PP&E when the asset is placed into service.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General PP&E was $4.3 billion as of September 30, 2020, and $4.3 billion as of September 30, 2019.

NATURE AND POSSIBLE CHANGES IN ESTIMATED CLEANUP COSTS

Environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. The Department is unaware of pending changes affecting its estimated cleanup costs.

The Department revised estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

UNCERTAINTY REGARDING ACCOUNTING ESTIMATES

The accounting estimates used to calculate the reported environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

ASBESTOS-RELATED CLEANUP COSTS

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. At this time, the Department is working towards assessing a reasonable estimate for the total cleanup costs related to friable and non-friable asbestos.

NOTE 15: OTHER LIABILITIES

TABLE 15: OTHER LIABILITIES

As of September 30 ($ in millions)	2020		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Advances from Others	$4,638.4	$-	$4,638.4
Deposit Funds and Suspense Account Liabilities	50.9	-	50.9
Disbursing Officer Cash	860.0	-	860.0
Judgment Fund Liabilities	1,047.5	-	1,047.5
FECA Reimbursement to the Department of Labor	454.4	543.7	998.1
Liabilities for Non-entity Assets	170.5	1,999.9	2,170.4
Employer Contributions and Payroll Taxes Payable	828.8	-	828.8
Other Liabilities	182.7	-	182.7
Total Intragovernmental Other Liabilities	8,233.2	2,543.6	10,776.8
Non-Federal			
Accrued Funded Payroll and Benefits	11,954.2	-	11,954.2
Advances from Others	5,235.9	(1.2)	5,234.7
Deferred Credits	198.2	-	198.2
Deposit Funds and Suspense Accounts	2,699.1	-	2,699.1
Non-Environmental Disposal Liabilities			-
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	13,024.0	-	13,024.0
Contract Holdbacks	1,654.3	16.1	1,670.4
Employer Contribution and Payroll Taxes Payable	975.3	-	975.3
Contingent Liabilities	429.0	820.4	1,249.4
Other Liabilities	1,658.9	655.6	2,314.5
Total Non-Federal Other Liabilities	37,828.9	1,496.9	39,325.8
Total Other Liabilities	$46,062.1	$4,040.5	$50,102.6

NOTE 15: OTHER LIABILITIES (CONTINUED)

TABLE 15: OTHER LIABILITIES (CONTINUED)

As of September 30 ($ in millions)	2019		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Advances from Others	$2,032.3	$-	$2,032.3
Deposit Funds and Suspense Account Liabilities	115.5	-	115.5
Disbursing Officer Cash	828.5	-	828.5
Judgment Fund Liabilities	800.2	-	800.2
FECA Reimbursement to the Department of Labor	471.8	578.3	1,050.1
Liabilities for Non-entity Assets	216.1	2,052.4	2,268.5
Employer Contributions and Payroll Taxes Payable	608.4	-	608.4
Other Liabilities	72.8	0.7	73.5
Total Intragovernmental Other Liabilities	5,145.6	2,631.4	7,777.0
Non-Federal			
Accrued Funded Payroll and Benefits	10,297.9	-	10,297.9
Advances from Others	5,303.0	(8.2)	5,294.8
Deferred Credits	-	-	-
Deposit Funds and Suspense Accounts	3,298.2	-	3,298.2
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,179.2	65.9	1,245.1
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,721.3	-	10,721.3
Contract Holdbacks	2,752.4	15.6	2,768.0
Employer Contribution and Payroll Taxes Payable	732.3	-	732.3
Contingent Liabilities	493.6	1,055.8	1,549.4
Other Liabilities	226.8	618.4	845.2
Total Non-Federal Other Liabilities	35,004.7	1,753.5	36,758.2
Total Other Liabilities	$40,150.3	$4,384.9	$44,535.2

INTRAGOVERNMENTAL OTHER LIABILITIES

Advances from Others represents liabilities for collections received to cover future expenses or acquisition of assets the Department incurs or acquires on behalf of another organization. For FY 2020, Advances from Others includes $1.8 billion to deliver food and medical supplies in support of COVID-19 efforts.

Deposit Funds and Suspense Accounts represents liabilities that offset receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner and liabilities that offset undistributed disbursements. The net amount of these may present as an overall positive or negative balance.

NOTE 15: OTHER LIABILITIES (CONTINUED)

INTRAGOVERNMENTAL OTHER LIABILITIES (CONTINUED)

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgement Fund Liabilities, see Note 17, *Commitments and Contingencies*.

Federal Employees' Compensation Act (**FECA**) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in FY 2021 and unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Liabilities for Non-entity Assets represents offsetting liabilities for non-entity assets, primarily non-entity receivables that, upon collection, will be remitted to Treasury.

Employer Contributions and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Other Liabilities consists of unemployment compensation liabilities.

NON-FEDERAL OTHER LIABILITIES

Advances from Others includes an abnormal balance for the non-current portion of the liability in FY 2020 and FY 2019; the Department will make the remaining corrective action effective FY 2021.

For FY 2019, Military Equipment (Non-Nuclear) is a part of the Non-Environmental Disposal liability related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear. Disposal measurements involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item. In FY 2020, this liability was reclassified as an environmental liability and is reported on Note 14, *Environmental Disposals and Liabilities*.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2020 and FY 2019 contract holdbacks include $1.3 billion and $1.8 billion for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (**FAR**).

Contingent Liabilities for FY 2020 and 2019 include legal contingent liabilities. See Note 17, *Commitments and Contingencies*.

Other Liabilities consist primarily of estimated costs for services provided; accrued liabilities which offset inventory owned and managed on behalf of foreign governments; and undistributed international tariff receipts.

LIFE INSURANCE LIABILITIES AND OTHER CIVILIAN INSURANCE PROGRAMS

The Department's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (**OPM**). The Department 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.

NOTE 15: OTHER LIABILITIES (CONTINUED)

OTHER MILITARY INSURANCE PROGRAMS

The Defense Health Program (DHP) within the Department provides healthcare for military members through the Military Health System (MHS). DHP is the nomenclature used to describe a congressionally-mandated uniform program of medical and dental care for members and certain former members of the uniformed services, and for their dependents. The term “uniformed services” means the armed forces and the Commissioned Corps of the National Oceanic and Atmospheric Administration (NOAA) and of the Public Health Service.

MHS is a complex system, globally integrating healthcare delivery, public health and medical education, and cutting-edge medical research and development. More information, including its most recently published Annual Financial Report, may be found at **Office of the Assistant Secretary of Defense for Health Affairs.**

Covered individuals of the Department include active duty personnel, military retirees, certain members of the Reserve Component, family members, widows, survivors, ex-spouses, and other eligible members. These MHS beneficiaries receive direct care through Military Medical Treatment Facilities (MTFs), private sector care through TRICARE’s civilian provider networks and other authorized TRICARE providers, and prescription and mail order coverage through the TRICARE Pharmacy Program (TPharm).

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty family members, retirees and Reserve members. The TRICARE Insurance Portfolio includes TRICARE Prime, TRICARE Select, TRICARE Continued Health Care Benefits Program (CHCBP), TRICARE Young Adult Program (TYA), TRICARE Reserve Select (TRS), and TRICARE Retired Reserve (TRR). The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted either upward, or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected. Premium rate calculations are based on the benefit cost from prior calendar years. Premiums are based on the Program’s benefit cost, which eliminates any inherent risk to third parties, including the beneficiary and the Manage Care Support Contractors who provide healthcare claims processing and the initial collections on behalf of DHP.

The total amount of Insurance Premium collections in FY 2020 was $755.6 million and $754.7 million for FY 2019. The benefit cost for FY 2020 and FY 2019 correlate to the premium collections reported.

For CY 2020 Monthly Premium Rates are established on an annual basis in accordance with **Title 10, U.S.C. Sections 1076d**, **1076e**, **1078a**, and **1110b** along with **Title 32, Code of Federal Regulations, part 199.24, 25 and 26, as enacted by FY 2017 Section 701 of NDAA; Public Law 114-328**. The enrollment fee and or premium collections are credited to the DHP appropriation available under Treasury Account Symbol 0130 for the fiscal year collected. Renewal in a specific plan is generally automatic unless declined; however, upper age limitations do exist for certain plans. More detailed information is found in the DHP’s Annual Financial Report at the link previously noted.

Actuarial liabilities and the estimated liability for incurred-but-not-reported medical claims ($1.7 billion in both FY 2020 and FY 2019) related to MHS are reported on Note 13, *Military Retirement and Other Federal Employment Benefits*, where it is referred to as Military Pre Medicare-Eligible Retiree Health Benefits.

NOTE 16: LEASES

ENTITY AS LESSEE

CAPITAL LEASES

The Department is reporting capital lease equipment and related amortization related to an arrangement for Indefeasible Right of Use agreements, allowing the Department access to portions of fiber optic, undersea cables. The Department has other leased assets recorded as equipment for which no future lease payments are due.

TABLE 16A: ENTITY AS LESSEE - ASSETS UNDER CAPITAL LEASE

As of September 30 ($ in millions)	2020	2019
Equipment	$367.1	$366.2
Accumulated Amortization	(294.9)	(283.8)
Total Assets Under Capital Leases	$72.2	$82.4

DESCRIPTION OF LEASE ARRANGEMENTS

Lease arrangements provide information that describes the nature of leases, such as major asset categories and/or the number of locations where building space is leased, the range of dates when lease terms expire, and, if applicable, the accounting treatment of rent holidays and leasehold improvements.

FUTURE PAYMENTS DUE FOR FEDERAL AND NON-FEDERAL CAPITAL LEASES

The Department currently has no significant future capital lease payments with terms longer than one year.

NOTE 16: LEASES (CONTINUED)

OPERATING LEASES

The future lease payments due presented in Table 16B are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risk of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index (CPI). Office space is the largest component of land and building leases. Other leases are primarily commercial leases with the general public and include automobile leases.

TABLE 16B: FUTURE PAYMENTS DUE FOR NON-CANCELABLE OPERATING LEASES

As of September 30 ($ in millions)	2020			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
Federal				
Fiscal Year				
2021	$717.1	$3.8	$93.7	$814.6
2022	496.5	2.5	90.9	589.9
2023	494.5	2.4	92.6	589.5
2024	498.4	2.0	94.2	594.6
2025	505.0	1.8	94.3	601.1
After 5 Years	1,206.3	1.7	21.9	1,229.9
Total Federal Future Lease Payments	3,917.8	14.2	487.6	4,419.6
Non-Federal				
Fiscal Year				
2021	177.9	0.7	31.3	209.9
2022	141.6	0.1	31.2	172.9
2023	107.1	0.1	31.7	138.9
2024	69.3	0.1	32.1	101.5
2025	31.2	0.1	32.4	63.7
After 5 Years	43.4	-	32.9	76.3
Total Non-Federal Future Lease Payments	570.5	1.1	191.6	763.2
Total Future Lease Payments	$4,488.3	$15.3	$679.2	$5,182.8

NOTE 16: LEASES (CONTINUED)

ENTITY AS LESSOR

CAPITAL LEASES

The Department is not aware of any capital lease agreements in which the Department is the lessor.

OPERATING LEASES

The future lease payments due presented in Table 16C are for non-cancelable operating leases in which the Department is the lessor. The United States Army Corps of Engineers (USACE) and Army General Fund (GF) have a small volume of operating leases as the lessor for easements. Private companies and individuals lease easements are managed by USACE to operate marinas, restaurants, cell towers, and other businesses on USACE lands and Army GF installations. USACE also permits a small number of federal entities to use its office spaces on a break-even basis.

TABLE 16C: ENTITY AS LESSOR - FUTURE PROJECTED RECEIPTS FOR NON-CANCELABLE OPERATING LEASES

As of September 30 ($ in millions)	2020
	Land and Buildings
Federal	
Fiscal Year	
2021	$0.1
2022	0.1
2023	0.1
2024	0.1
2025	0.1
After 5 Years	-
Total Federal Future Projected Receipts	0.5
Non-Federal	
Fiscal Year	
2021	21.3
2022	17.3
2023	13.8
2024	10.3
2025	8.0
After 5 Years	36.3
Total Non-Federal Future Projected Receipts	107.0
Total Future Projected Receipts	$107.5

NOTE 17: COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

The Department is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the **Treasury Judgment Fund**. In most cases, the Department 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. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

TABLE 17: SUMMARY OF LEGAL CONTINGENT LIABILITIES

As of September 30 ($ in millions)	2020		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$1,000.0	$421.8	$978.8
Reasonably Possible	-	$1,356.5	$15,769.4
	2019		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$1,363.2	$606.5	$1,115.8
Reasonably Possible	-	$1,335.2	$15,910.6

As of September 30, 2020, legal claims exist for which the estimated loss amount or the range of loss cannot be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the Department's financial position or results of operation.

NOTE 17: COMMITMENTS AND CONTINGENCIES (CONTINUED)

ENVIRONMENTAL CONTINGENCIES

The Department continues to review possible environmental contingent liabilities to include friable and non-friable asbestos cleanup costs.

OTHER CONTINGENCIES

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of budgetary resources. Contingencies considered both measurable and probable in the amount of $249.4 million and $186.2 million have been accrued for FY 2020 and FY 2019, respectively. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in Department's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

COMMITMENTS

The Department has following obligations as of FY 2020 and FY 2019: obligations related to canceled appropriations for which it has a contractual commitment for payment ($2.1 billion and $2.3 billion, respectively); for contractual arrangements related to loan guarantees ($899.1 million and $909.7 million, respectively), and amounts related to non-cancelable operating leases which may require future financial obligations ($5.2 billion and $4.2 billion, respectively). See Note 7, *Direct Loan and Loan Guarantees*, and Note 16, *Leases*, for additional information.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS

The Department's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources provided by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Department's general revenues. There has been no legislation in FY 2020 or FY 2019 which has significantly altered the purposes of the Department's Funds from Dedicated Collections.

The disclosures in this note are made in accordance with **SFFAS 27**, as amended by **SFFAS 43**.

TABLE 18A: COMBINED BALANCE SHEET – FUNDS FROM DEDICATED COLLECTIONS

As of September 30 ($ in millions)	2020			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Intragovernmental Assets				
Fund Balance with Treasury	$148.1	$1,912.9	$2,749.1	$4,810.1
Investments	9,206.3	-	1,822.8	11,029.1
Accounts Receivable, Net	532.1	-	1.4	533.5
Total Intragovernmental Assets	9,886.5	1,912.9	4,573.3	16,372.7
Cash and Other Monetary Assets	-	-	3.5	3.5
Accounts Receivable, Net	-	6.1	3.9	10.0
General Property, Plant, and Equipment, Net	126.9	290.2	106.5	523.6
Other Assets	-	-	0.2	0.2
Total Assets	10,013.4	2,209.2	4,687.4	16,910.0
Intragovernmental Liabilities				
Accounts Payable	-	0.1	13.9	14.0
Other Liabilities	6.0	12.9	2.3	21.2
Total Intragovernmental Liabilities	6.0	13.0	16.2	35.2
Accounts Payable	0.1	59.4	68.2	127.7
Environmental and Disposal	-	-	30.7	30.7
Other Liabilities	-	1,891.0	-	1,891.0
Total Liabilities	6.1	1,963.4	115.1	2,084.6
Cumulative Results of Operations	10,007.3	245.8	4,572.3	14,825.4
Total Liabilities and Net Position	$10,013.4	$2,209.2	$4,687.4	$16,910.0

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

TABLE 18A: COMBINED BALANCE SHEET – FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

As of September 30 ($ in millions)	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Intragovernmental Assets				
Fund Balance with Treasury	$127.4	$1,859.8	$2,296.1	$4,283.3
Investments	9,319.2	-	1,747.5	11,066.7
Accounts Receivable, Net	543.7	-	4.6	548.3
Total Intragovernmental Assets	9,990.3	1,859.8	4,048.2	15,898.3
Cash and Other Monetary Assets	-	-	$3.7	$3.7
Accounts Receivable, Net	-	2.2	1.0	3.2
General Property, Plant, and Equipment, Net	130.9	283.9	710.0	1,124.8
Other Assets	-	-	0.2	0.2
Total Assets	10,121.2	2,145.9	4,763.1	17,030.2
Intragovernmental Liabilities				
Accounts Payable	-	0.1	23.1	23.2
Other Liabilities	6.0	13.4	-	19.4
Total Intragovernmental Liabilities	6.0	13.5	23.1	42.6
Accounts Payable	0.2	39.4	50.3	89.9
Environmental and Disposal	-	-	29.6	29.6
Other Liabilities	-	1,847.1	-	1,847.1
Total Liabilities	6.2	1,900.0	103.0	2,009.2
Cumulative Results of Operations	10,115.0	245.9	4,660.1	15,021.0
Total Liabilities and Net Position	$10,121.2	$2,145.9	$4,763.1	$17,030.2

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

TABLE 18B: COMBINED STATEMENT OF NET COST – FUNDS FROM DEDICATED COLLECTIONS

For the period ended September 30 ($ in millions)	2020			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$96.3	$452.8	$1,473.8	$2,022.9
Less: Earned Revenues	-	(569.4)	(1,359.3)	(1,928.7)
Net Program Costs	96.3	(116.6)	114.5	94.2
Net Cost of Operations	$96.3	$(116.6)	$114.5	$94.2

	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$49.9	$291.2	$1,583.3	$1,924.4
Less: Earned Revenues	-	(386.7)	(324.2)	(710.9)
Net Program Costs	49.9	(95.5)	1,259.1	1,213.5
Net Cost of Operations	$49.9	$(95.5)	$1,259.1	$1,213.5

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

TABLE 18C: COMBINED STATEMENT OF CHANGES IN NET POSITION – FUNDS FROM DEDICATED COLLECTIONS

For the period ended September 30 ($ in millions)	2020			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$10,115.0	$245.9	$4,660.1	$15,021.0
Budgetary Financing Sources:				
Nonexchange revenue	1,565.1	-	524.8	2,089.9
Donations and forfeitures of cash and cash equivalents	-	-	55.6	55.6
Transfers-in/out without reimbursement (+/-)	(1,576.5)	-	(44.5)	(1,621.0)
Other Financing Sources (nonexchange):				
Transfers-in/out without reimbursement (+/-)	-	(123.6)	(592.4)	(716.0)
Imputed financing costs absorbed by others (+/-)	-	6.9	-	6.9
Other financing sources, other (+/-)	-	-	83.2	83.2
Less: Net Cost of Operations	96.3	(116.6)	114.5	94.2
Change in Net Position	(107.7)	(0.1)	(87.8)	(195.6)
Net Position, End of Period	$10,007.3	$245.8	$4,572.3	$14,825.4

	2019			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$10,140.4	$256.0	$4,218.2	$14,614.6
Budgetary Financing Sources:				
Nonexchange revenue	1,901.4	-	1,653.0	3,554.4
Donations and forfeitures of cash and cash equivalents	-	-	52.6	52.6
Transfers-in/out without reimbursement (+/-)	(1,876.1)	-	(55.5)	(1,931.6)
Other Financing Sources (nonexchange):				
Transfers-in/out without reimbursement (+/-)	(0.8)	(111.3)	-	(112.1)
Imputed financing costs absorbed by others (+/-)	-	5.7	-	5.7
Other financing sources, other (+/-)	-	-	50.9	50.9
Less: Net Cost of Operations	49.9	(95.5)	1,259.1	1,213.5
Change in Net Position	(25.4)	(10.1)	441.9	406.4
Net Position, End of Period	$10,115.0	$245.9	$4,660.1	$15,021.0

Tables 18A, 18B, and 18C are presented on a combined basis and relate solely to Funds from Dedicated Collections. The Net Position amounts related to Funds from Dedicated Collections reflected on Tables 18A and 18C will not equal those reflected on the DoD Agency-wide Balance Sheet and Statement of Changes in Net Position, as those statements are presented on a consolidated basis. Refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

PURPOSE, SOURCE OF REVENUE, AND AUTHORITY FOR FUNDS FROM DEDICATED COLLECTIONS

HARBOR MAINTENANCE AND RELATED FUNDS

Harbor Maintenance Trust Fund (**26 U.S.C. §9505**) – The United States Army Corps of Engineers **(USACE) Civil Works** mission is funded by the Energy and Water Development Appropriations Acts. The **Water Resources Development Act of 1986** covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Taxes collected from imports, domestics, passengers, and foreign trade are deposited into the Trust Fund. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection, and Restoration Act (**16 U.S.C. §§3951-3956**) – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds. Federal contributions are 75 percent of project costs, or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This Trust Fund receives funding from the Sport Fish Restoration and Boating Trust Fund.

Inland Waterways Trust Fund (**26 U.S.C. §9506**) – Excise taxes from the public are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

RIVERS AND HARBORS CONTRIBUTED AND ADVANCE FUNDS

Rivers and Harbors Contributed and Advance Funds (**33 U.S.C. §§701h**, **702f**, and **703**) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, enlargement of river channels, and similar work, in the course of flood control and river and harbor maintenance.

OTHER FUNDS FROM DEDICATED COLLECTIONS

Other funds from dedicated collection have been aggregated in accordance with **SFFAS 43**.

Special Recreation Use Fees (**16 U.S.C. §§460l 6a** and **6812(e)(1)**) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. Receipts cover operation and maintenance of recreational sites.

Hydraulic Mining in California, Debris (**33 U.S.C. §683**) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. USACE collects taxes and expends funds under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 **(33 U.S.C. §701c 3)** – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the counties where the property is located, or for defraying county government expenses.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

OTHER FUNDS FROM DEDICATED COLLECTIONS (CONTINUED)

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (**16 U.S.C. §§803(f)** and **810**) – The Federal Energy Regulatory Commission (**FERC**) assesses charges against licensees when a reservoir or other improvement is constructed by the U.S. All proceeds from Indian reservations are credited to the Indians of the reservations. All other proceeds arising from licenses, except those established by the FERC for administrative reimbursement, are paid to the Treasury and allocated for specific uses. The Department of the Army is allocated 50 percent of charges from all licenses, except licenses for the occupancy and use of public lands and national forests. These funds are deposited in a special fund and used for maintenance, operation, and improvement of dams, and other navigation structures owned by the U.S., or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the U.S.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) (**33 U.S.C. §2326**) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund (**10 U.S.C. §2685**) – Surcharge on sales of commissary goods finance the Commissary System operating expenses and capital purchases, precluded by law from being paid with appropriated funds. Revenue is generated through a five percent surcharge applied to each sale. These funds finance commissary-related information technology investments, equipment, advance design modifications to prior year construction projects, and maintenance and repair of facilities and equipment.

NOTE 19: DISCLOSURES RELATED TO THE STATEMENT OF NET COST

TABLE 19: COSTS AND EXCHANGE REVENUE BY MAJOR PROGRAM

For the years ended September 30 ($ in millions)	Restated 2020	2019
Military Retirement Benefits		
Gross Cost	$139,257.2	$106,422.7
Less: Earned Revenue	(30,482.5)	(36,784.1)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(28,002.0)	136,377.5
Net Program Costs	80,772.7	206,016.1
Civil Works		
Gross Cost	12,978.8	11,594.9
Less: Earned Revenue	(3,401.3)	(3,201.8)
Net Program Costs	9,577.5	8,393.1
Military Personnel		
Gross Cost	157,010.7	150,995.7
Less: Earned Revenue	(2,231.6)	(1,030.1)
Net Program Costs	154,779.1	149,965.6
Operations, Readiness & Support		
Gross Cost	284,482.2	297,033.2
Less: Earned Revenue	(21,871.7)	(25,104.4)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	10,626.7	2,431.0
Net Program Costs	273,237.2	274,359.8
Procurement		
Gross Cost	103,044.1	126,512.6
Less: Earned Revenue	(8,040.4)	(11,209.0)
Net Program Costs	95,003.7	115,303.6
Research, Development, Test & Evaluation		
Gross Cost	110,644.6	104,654.5
Less: Earned Revenue	(13,307.9)	(12,114.1)
Net Program Costs	97,336.7	92,540.4
Family Housing & Military Construction		
Gross Cost	9,747.7	25,123.1
Less: Earned Revenue	(1,909.4)	(1,058.7)
Net Program Costs	7,838.3	24,064.4
Consolidated		
Gross Cost	817,165.3	822,336.7
Less: Earned Revenue	(81,244.8)	(90,502.2)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(17,375.3)	138,808.5
Total Net Cost	$718,545.2	$870,643.0

NOTE 19: DISCLOSURES RELATED TO THE STATEMENT OF NET COST (CONTINUED)

RESTATEMENTS

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY2020. See Note 28, *Restatements* for further information.

OTHER DISCLOSURES

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Department 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 Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The Department continues to review available data and developing a cost reporting methodology required by **SFFAS 4**, "*Managerial Cost Accounting Concepts and Standards for the Federal Government*," as amended by **SFFAS 55**, "*Amending Inter-Entity Cost Provisions*."

The Department's military retirement and postemployment costs are reported in accordance with **SFFAS 33**, "*Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*." The standard requires the separate presentation of gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC.

NOTE 20: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

UNEXPENDED APPROPRIATIONS – PRIOR PERIOD ADJUSTMENTS

The Department recorded a prior period adjustment under **SFFAS 21** that decreased the 2020 beginning balance $14.7 million. The Department identified the FY 2019 Operating Materiel and Supplies balances were incorrectly valued in the accounting system of record. To correct these balances, the Cumulative Unexpended Appropriation were also adjusted. In addition, in FY2020, the Department corrected errors which decreased the FY 2019 beginning balance for Unexpended Appropriations by $1.2 billion. See the Restatements section below.

CUMULATIVE RESULTS OF OPERATIONS – PRIOR PERIOD ADJUSTMENTS

The Department recorded prior period adjustments under **SFFAS 21**, **SFFAS 48**, and **SFFAS 50**, that increased the FY 2020 beginning balance $1.9 billion from ($415.4) billion to ($413.5) billion. In FY 2019, the Department recorded prior period adjustments that increased the 2019 beginning balance $11.4 billion from ($344.2) billion to ($332.8) billion. These prior period adjustments are attributable to the Corrections of Errors and Changes in Accounting Principles.

The Department corrected an error in its financial statements for assets and net position under SFFAS 21. SFFAS 21 requires that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. During FY 2020, the Department corrected a reporting error for operating materials and decreased the beginning Cumulative Results of Operations by $1.7 million. During FY 2019, the Department corrected a reporting error discovered in the value of vessels and increased the beginning Cumulative Results of Operations by $7.1 billion.

Various components with the Department elected to implement new accounting principles in FY 2020 and FY 2019. FASAB issued SFFAS 48 and SFFAS 50 which permitted alternative methods in establishing opening balances and are effective for periods beginning after September 30, 2016 with early implementation allowed. In FY 2020, these changes in accounting principles increased the beginning Cumulative Results of Operations by $1.9 billion as the components established opening balances for General PP&E (specifically, vessels, software, and real property). In FY 2019, these changes in accounting principles increased the beginning Cumulative Results of Operations by $4.3 billion as the components established opening balances for General PP&E (specifically, equipment and software). In addition in FY2020, the Department corrected additional errors which decreased the FY 2019 beginning balance for Cumulative Results of Operations by $136.4 million. See the Restatements section below.

RESTATEMENTS

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY 2020. See Note 28, *Restatements* for further information.

The Department restated its financial statements as of September 30, 2019 to correct errors in:

- General Property Plant & Equipment, net (was overstated by $2,363.7 million);
- Inventory and Related Property (was understated by of $1,115.9 million);
- Accounts Payable (was understated by $111.0 million);
- Unexpended Appropriations – Other Funds (overstated by $1,222.4 million); and
- Cumulative Results of Operations – Other Funds (was overstated by $136.4 million)

The restatement correctly states Real Property Transfers, Operating Materiels and Supplies, and Accounts Payable. See Note 28, *Restatements*, and other Notes cited there for further information.

NOTE 20: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

OTHER FINANCING - OTHER

The Department recorded ($4.7) billion in FY 2020 as Other Financing – Other resulting from the revaluation of General PP&E. This amount was $15.9 billion in FY 2019, also due to the revaluation of General PP&E.

RECONCILIATION DIFFERENCES

STATEMENT OF BUDGETARY RESOURCES TO THE STATEMENT OF CHANGES IN NET POSITION

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by $71.7 billion in FY 2020 and $71.6 billion in FY 2019. A reconciliation of these amounts is presented in Table 20A.

TABLE 20A: RECONCILIATION OF APPROPRIATIONS ON THE STATEMENT OF BUDGETARY RESOURCES TO APPROPRIATIONS RECEIVED ON THE STATEMENT OF CHANGES IN NET POSITION

As of September 30 ($ in billions)	2020	2019
Appropriations, Statement of Budgetary Resources	$914.3	$874.4
Permanent and Temporary Reductions	97.6	101.6
Trust and Special Fund Receipt	(168.5)	(172.5)
Miscellaneous items	(0.8)	(0.7)
Total Reconciling Difference	(71.7)	(71.6)
Appropriations Received, Statement of Changes in Net Position	$842.6	$802.8

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation.

Trust and Special Fund Receipts are not immediately available for obligation that are awaiting authorizing legislation and or the satisfaction of specific legal requirements.

Miscellaneous Items primarily includes the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

FUNDS FROM DEDICATED COLLECTIONS INFORMATION TO THE BALANCE SHEET AND STATEMENT OF CHANGES IN NET POSITION

Funds from Dedicated Collections information is presented on a combined basis in Note 18, Funds from Dedicated Collections. Table 20B summarizes the elimination of intradepartmental activity between Funds from Dedicated Collections and all Other Fund types to arrive at the consolidated Net Position amounts presented on the DoD Agency-wide Balance Sheet and Statement of Changes in Net Position.

NOTE 20: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

TABLE 20B: RECONCILIATION OF COMBINED DEDICATED COLLECTIONS AND OTHER FUNDS TO CONSOLIDATED DEDICATED COLLECTIONS AND OTHER FUNDS

As of September 30 ($ in millions)	2020		
	Combined	Reconciling Differences	Consolidated
Unexpended Appropriations - Other funds	569,725.2	-	569,725.2
Cumulative Results of Operations - Dedicated	14,825.4	(17,732.5)	32,557.9
Cumulative Results of Operations - Other Funds	(349,444.4)	17,732.5	(367,176.9)
Total Net Position	$235,106.2	$-	$235,106.2

	2019		
	Combined	Reconciling Differences	Consolidated
Unexpended Appropriations - Other funds	543,945.8	-	543,945.8
Cumulative Results of Operations - Dedicated	15,021.0	(15,310.1)	30,331.1
Cumulative Results of Operations - Other Funds	(430,398.8)	15,310.1	(445,708.9)
Total Net Position	$128,568.0	$-	$128,568.0

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources is presented on a combined basis in accordance with OMB **Circular No. A-136**; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other principal financial statements, which are presented on a consolidated basis.

RESTATEMENT

The Department corrected an understatement of $16.0 million of New Obligations and Upward Adjustments (Total) and an overstatement of $16.0 million of Apportioned, Unexpired Accounts. In addition, see Table 21A for the effect of a restatement related to Accounts Payable. See Note 28, *Restatements* for further information.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments during FY 2020 to the budgetary resources available at the beginning of the year.

TERMS OF BORROWING AUTHORITY USED

The Department utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB **Circular No. A-129**. See Note 7, *Direct Loans and Loan Guarantees, Non-Federal Borrower*, for additional information related to MHPI.

AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

No available borrowing authority remained at the end of the period for FY 2020 or 2019.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

TABLE 21A: BUDGETARY RESOURCES OBLIGATED FOR UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30 ($ in millions)	2020	*Restated* 2019
Intragovernmental		
Unpaid	$129,191.9	$92,795.2
Prepaid / Advanced	4,029.3	3,523.4
Total Intragovernmental	133,221.2	96,318.6
Non-Federal		
Unpaid	395,015.9	381,647.4
Prepaid / Advanced	21,385.9	20,370.1
Total Non-Federal	416,401.8	402,017.5
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$549,623.0	$498,336.1

The FY 2019 Total Budgetary Resources Obligated Undelivered Orders at the End of the Period was restated, related to the restatement of Non-Federal Accounts Payable. Non-Federal, Unpaid was previously understated by $94.9 million.

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES (CONTINUED)

LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

A portion of the Department's unobligated balances represent trust fund receipts collected in the current fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the funds and are available for obligation in the future. The Department operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

Table 21B presents a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays in the FY 2019 column on the Combined Statement of Budgetary Resources (SBR) to the actual amounts for FY 2019 from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2021 President's Budget.

TABLE 21B: EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

For the year ended September 30 ($ in millions)	FISCAL YEAR 2019 ACTUAL			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	$1,301.1	$1,116.1	$107.4	$828.7
Expired accounts that are excluded from the Budget of the U.S. Government	(46.5)	(23.8)	-	-
Closed Accounts included in the Budget	0.1	0.1	-	0.1
Permanent Reporting Differences*	(0.1)	(0.1)	-	-
Other	0.2	0.1	(0.1)	-
Budget of the U.S. Government	$1,254.8	$1,092.4	$107.3	$828.8

* The difference reported above for Budgetary Resources and New Obligations and Upward Adjustments is due to different reporting requirements on the SBR versus the Budget.

The FY 2022 Budget will display the FY 2020 actual values and will be available at a later date at **https://www.whitehouse.gov/omb/budget**.

CONTRIBUTED CAPITAL

There was no infusion of capital received in FY 2020.

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES (CONTINUED)

OTHER DISCLOSURES

In compliance with OMB guidance, $136.8 billion of FY 2020 and $129.9 billion of FY 2019 General Fund appropriations received by the Department are also recognized on the SBR, Line 1290 Appropriations (discretionary and mandatory) as appropriations received for trust and special funds. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received additional funding of $71.3 billion in FY 2020 and $68.8 billion in FY 2019 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects an unobligated expired appropriations in the amount of $21.2 billion, (2 percent of total budget authority). The Department strives to obligate as close as prudently possible to the total available budget authority before it expires. Its internal controls and systems for administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the **Antideficiency Act**. The enormous number of contracts, projects, and activities (for example, construction projects, complex acquisitions, cutting edge/high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by **31.U.S.C. §1553**.

PERMANENT INDEFINITE APPROPRIATIONS

The following permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

The Department received the following permanent indefinite appropriations in FY 2020 and FY 2019:

Department of the Army General Gift Fund (**10 U.S.C. §2601(c)(1)**)

Department of the Navy General Gift Fund (**10 U.S.C. §2601(c)(2)**)

Department of the Air Force General Gift Fund (**10 U.S.C. §2601(c)(3)**)

Department of Defense General Gift Fund (**10 U.S.C. §2601**)

Disposal of Department of Defense Real Property (**40 U.S.C. §572(b)(5)(A)**)

Lease of Department of Defense Real Property (**40 U.S.C. §485(h)**)

Foreign National Employees Separation Pay Account, Defense (**10 U.S.C. §1581**)

United States Naval Academy Gift and Museum Fund (**10 U.S.C. §8474**)

Ship Stores Profits, Navy (**10 U.S.C. §8620, 31 U.S.C. §1321**)

Burdensharing Contributions (**10 U.S.C. §2350j**)

Forest Program (**10 U.S.C. §2665**)

Medicare-Eligible Retiree Health Care Fund (**10 U.S.C. §1111**)

Military Retirement Fund (**10 U.S.C. §1461**)

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES (CONTINUED)

PERMANENT INDEFINITE APPROPRIATIONS (CONTINUED)

Education Benefits Fund (**10 U.S.C. §2006**)

Host Nation Support for U.S. Relocation Activities (**10 U.S.C. §2350k**)

Hydraulic Mining Debris Reservoir (**33 U.S.C. §683**)

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (**16 U.S.C. §810(a)**)

Payments to States (**33 U.S.C. §701c 3**)

Wildlife Conservation (**16 U.S.C. §§670 670f**)

Ainsworth Bequest (**31 U.S.C. §1321**)

DoD Family Housing Improvement Fund (**10 U.S.C. §2883(a)**)

DoD Military Unaccompanied Housing Improvement Fund (**10 U.S.C. §2883(a)**)

Voluntary Separation Incentive Fund (**10 U.S.C. §1175(h)**)

Rivers & Harbors Contributed Funds (**33 U.S.C. §§560, 701h**)

Concurrent Receipt Accrual Payments to the Military Retirement Fund (**10 U.S.C. §1466(b)(1)**)

Rocky Mountain Arsenal, Restoration (United States Statutes at Large, Volume 100, page 4003, section 1367 (**100 Stat. 4003 §1367**))

Homeowners Assistance Fund (**42 U.S.C. §3374(d), Public Law 111-5**)

Payments to Military Retirement Fund, Defense (**10 U.S.C. §1466**)

Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund (**10 U.S.C. §1116(a)**)

Medicare-Eligible Retiree Health Fund Contribution, Navy (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Marine Corps (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Army (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Air Force (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (**10 U.S.C. §1116**)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (**10 U.S.C. §1116**)

Department of Defense Vietnam War Commemoration Fund, Defense (**Public Law 110-181, 122 Stat. 141 §598**)

NOTE 22: DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

In FY 2020 and FY 2019, the Department collected $29.2 million and $4.9 million, respectively, of incidental custodial revenues generated primarily from fines, penalties, and forfeitures of unclaimed money and property. These funds are not available for use by the Department; the accounts are closed and relinquished to the U.S. Treasury at the end of the fiscal year.

NOTE 23: FIDUCIARY ACTIVITIES

TABLE 23A: SCHEDULE OF FIDUCIARY ACTIVITY

For the years ended September 30 ($ in millions)	2020	2019
Fiduciary Net Assets, Beginning of Year	$893.8	$77.9
Contributions	496.4	98.6
Investment Earnings	0.2	0.3
Distributions To and On Behalf Of Beneficiaries	(417.6)	(109.8)
Increase / (Decrease) in Fiduciary Net Assets	79.0	(10.9)
Fiduciary Net Assets, End of Year	$972.8	$67.0

TABLE 23B: SCHEDULE OF FIDUCIARY NET ASSETS

As of September 30 ($ in millions)	2020	2019
Fiduciary Assets		
Fund Balance with Treasury	$972.8	$67.0
Fiduciary Liabilities	-	-
Total Fiduciary Net Assets	$972.8	$67.0

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or non-Federal entity. Fiduciary assets are not recognized on the Balance Sheet. The Department is not aware of any non-valued fiduciary assets for which it has management responsibility.

Prior to FY 2020, the Foreign Cooperative Projects funds were accepted into the annual Operation and Maintenance, Navy appropriation reimbursable account and managed as Advance Sales Orders. Beginning in FY 2020, the Navy established a deposit fund and recognized these as fiduciary to continue providing support to foreign governments without utilizing or encumbering any reimbursable authority. Prior to FY 2020, the Foreign Cooperative Projects was not categorized as a fiduciary activity and was previously included as Fund Balance with Treasury (Note 3). For FY 2020, Table 23A includes the following for the Foreign Cooperative Projects: Fiduciary Net Assets, Beginning of Year, $821.6 million; Contributions, $403.8 million; Distributions, ($316.0) million; and Fiduciary Net Assets, End of Period, $909.4 million. Table 23B, FY 2020, Fund Balance with Treasury also includes $909.4 million for the Foreign Cooperative Project.

The FY 2020 Fiduciary Net Assets, Beginning of Year on Table 23A exceeds the FY 2019 Fiduciary Net Assets, End of Period by an additional adjustment of $5.2 million related to the Savings Deposit Program (**SDP**). The Department of the Army's data in Treasury's Central Accounting Reporting System (CARS) at September 30, 2019 indicated abnormally large and unexpected balances for collections and disbursements, at which time Army performed an independent analysis to record its fiduciary activity. In FY 2020 after further research, Army recorded a $5.2 million adjustment to bring its beginning fiduciary balances into agreement with CARS.

NOTE 23: FIDUCIARY ACTIVITIES (CONTINUED)

Public Law 89-538 authorized the Department, through SDP, to collect voluntary contributions from members of the Armed Forces serving in designated areas, up to $10,000 per deployment per member. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as a separate fund. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member via direct deposit by the Department. Funds in excess of $10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations. Fiduciary Net Assets, End of Period for SDP as of FY 2020 and FY 2019 were $63.4 million and $67.0 million respectively.

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS

TABLE 24: RECONCILIATION OF THE NET COST OF OPERATIONS TO NET OUTLAYS

For the year ended September 30 ($ in millions)	Restated 2020		
	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	$7,484.7	$711,060.5	$718,545.2
Components of Net Cost That are Not Part of Net Outlays			
Property, plant, and equipment depreciation	-	(54,759.7)	(54,759.7)
Property, plant, and equipment disposal & revaluation	-	(6,614.3)	(6,614.3)
Year-end credit reform subsidy re-estimates	-	149.2	149.2
Other	(0.2)	(67,210.1)	(67,210.3)
Increase/(decrease) in assets			
Accounts Receivable	1,043.7	(795.1)	248.6
Investments	(1.7)	-	(1.7)
Other Assets	988.8	1,051.4	2,040.2
Increase/(decrease) in liabilities			
Accounts Payable	(5,887.9)	4,584.7	(1,303.2)
Salaries and benefits	(222.3)	(1,981.1)	(2,203.4)
Insurance guarantee program liabilities	-	6.6	6.6
Environmental and disposal liabilities	-	1,082.9	1,082.9
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(33.5)	(59,778.4)	(59,811.9)
Other financing sources			
Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(4,355.7)	-	(4,355.7)
Transfers out (in) without reimbursement	1,324.2	-	1,324.2
Other imputed financing	(252.4)	-	(252.4)
Total Components of Net Cost That Are Not Part of Net Outlays	(7,397.0)	(184,263.9)	(191,660.9)
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of capital assets	30.4	111,084.0	111,114.4
Acquisition of inventory	205.8	68,619.9	68,825.7
Other	61,351.5	(450.8)	60,900.7
Total Components of Net Outlays That Are Not Part of Net Cost	61,587.7	179,253.1	240,840.8
Net Outlays	$61,675.4	$706,049.7	$767,725.1
Agencies Outlays, Net, Statement of Budgetary Resources			$763,219.4
Reconciling Difference			$4,505.7

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS (CONTINUED)

TABLE 24: RECONCILIATION OF THE NET COST OF OPERATIONS TO NET OUTLAYS (CONTINUED)

For the year ended September 30 ($ in millions)	Restated 2019		
	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	$(4,377.9)	$875,020.9	$870,643.0
Components of Net Cost That are Not Part of Net Outlays			
Property, plant, and equipment depreciation	-	(67,691.6)	(67,691.6)
Property, plant, and equipment disposal & revaluation	-	(9,029.7)	(9,029.7)
Year-end credit reform subsidy re-estimates	-	107.3	107.3
Other	-	(60,774.3)	(60,774.3)
Increase/(decrease) in assets			
Accounts Receivable	(2,466.7)	206.3	(2,260.4)
Investments	37.0		37.0
Other Assets	79.3	(8,884.9)	(8,805.6)
Increase/(decrease) in liabilities			
Accounts Payable	2,481.2	(11,036.1)	(8,554.9)
Salaries and benefits	97.1	(517.2)	(420.1)
Insurance guarantee program liabilities	-	7.7	7.7
Environmental and disposal liabilities	-	(5,713.5)	(5,713.5)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(200.2)	(178,061.6)	(178,261.8)
Other financing sources			
Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(5,237.4)		(5,237.4)
Transfers out (in) without reimbursement	73.0		73.0
Other imputed financing	(372.4)		(372.4)
Total Components of Net Cost That Are Not Part of Net Outlays	(5,509.1)	(341,387.6)	(346,896.7)
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of capital assets	16.1	84,775.3	84,791.4
Acquisition of inventory	246.8	63,456.5	63,703.3
Other	61,075.8	(1,841.5)	59,234.3
Total Components of Net Outlays That Are Not Part of Net Cost	61,338.7	146,390.3	207,729.0
Net Outlays	$51,451.7	$680,023.6	$731,475.3
Agencies Outlays, Net, Statement of Budgetary Resources			$721,223.2
Reconciling Difference			$10,252.1

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS (CONTINUED)

RESTATEMENT

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY 2020. See Note 28, *Restatements* for further information.

The Department corrected a $111.0 million understatement of Accounts Payable which results in a larger decrease on the Accounts Payable line above by the same amount. See Note 28, *Restatements* for further information.

OTHER DISCLOSURES

In accordance with **OMB Circular A-136**, the Department conformed the FY 2019 reconciliation to the changes related to loans receivable under Federal Credit Reform Act in the FY 2020 guidance. As such, the prior year presentation changed for the following lines: Loans Receivable and Agency Outlays, Net, Statement of Budgetary Resources.

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Department's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Department'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 Department. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

Components of Net Cost That are Not Part of Net Outlays includes non-cash charges consisting of $58.2 billion change in actuarial pension and health insurance liabilities, $57.3 billion in cost of goods sold, and $54.8 billion in depreciation, revaluation and disposal of property, plant and equipment. The Other line includes $23.1 billion in expenses that do not require budgetary resources.

Components of Net Outlays That are Not Part of Net Cost includes $95.9 billion was paid during the acquisition of capital assets and inventory that is not included in Net Cost. Additionally, $84.0 billion in costs transferred to an in-progress or completed asset account that were originally recorded into an expense account. The Other line includes $60.6 billion recognized as outlays in pass-through entities for Military Services contributions and Treasury payments to certain trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information.

The Reconciling Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and Statement of Budgetary Resources. Additionally, the Department's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is on-going to resolve the remaining difference.

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships (P3s) are risk-sharing agreements between public and private sector entities with expected lives greater than five years. P3s can be extremely complex agreements which transfer or share various forms of risk among the P3 partners, some of which involve government assets. Disclosure of P3s foster accountability and improve understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. **SFFAS 49** Public-Private Partnerships, requires the disclosure of the nature of the Government's relationship with the private entities and helps achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts (**SFFAC**) 1, Objectives of Federal Financial Reporting, by making P3s more understandable.

The Department identified Military Housing Privatization Initiative (MHPI) agreements as P3s requiring disclosure. Military Departments are reviewing the details of individual agreements to ensure the underlying transactions are recorded and reported in accordance with GAAP. Due to the complexity of some of the MHPI agreements, the Department may need to adjust previous transactions in order to be GAAP compliant and is currently performing research and analysis to determine the materiality of prospective adjustments, which may result in a relevant effect on the financial position and results of operations of the MHPI agreements.

OVERVIEW

The MHPI agreements are private sector/market driven businesses established as Limited Liability Companies or Limited Partnerships (LLC/LP) single purpose entities. These entities allow the Department to work with the private sector to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in MHPI agreements, the government benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow. The MHPI authority stems from the National Defense Authorization Act for Fiscal Year 1996, **Public Law 104-106** (110, Stat 186, Section 2801). **Title 10 U.S.C. §§ 2871-2885** codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. The Private Partner serves as the majority managing member which ensures performance objectives are met over the expected life of the operating agreement. The Military Department generally serves as the minority member and enters into a long-term ground lease (generally 50 years), and conveys the associated real property assets (buildings, structures, facilities, and utilities) to the LLC or LP. The contractual terms and termination clauses vary by agreement. The Department's involvement in the operations and management of the LLC or LP is governed by evaluating the percentage of ownership interest, along with analyzing the indicators of control, which determines the level of influence over the partnership.

FUNDING AND CONTRIBUTIONS

The Department provides funding to the LLC or LP through:

- **Equity Investments** - Provision of cash and transfer of real property ownership (land, housing units, and other structures) to a project and, in return, the DoD receives a portion of that project's profits and losses. In addition, the DoD also receives compensation if the investment is sold;
- **Government Direct Loans** - Provision of cash to a project with the expectation of future payment;
- **Government Loan Guarantees** - Agreement to pay a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project;
- **Differential Lease Payments** - Provision of monthly payments to a project above the Basic Allowance for Housing (BAH) paid by the military personnel.

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

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

FUNDING AND CONTRIBUTIONS (CONTINUED)

Cash contribution from the Department's Family Housing Improvement Fund (FHIF) or the Department's Military Unaccompanied Housing Improvement Fund (MUHIF) requires Congressional notification, per **10 USC 2883**, to provide a justification for the transfer of appropriated amounts to a fund from amounts authorized and appropriated to the Department for the acquisition, improvement, or construction of military family housing. The expected life of each MHPI agreement corresponds to the length of the ground lease. The agreement is established through negotiations between the Military Department and the Private Partner based on the duration of the project to establish housing, which determines the amount of contributions at the inception of the agreement. The Military Departments are not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF or MUHIF. However, the enactment of **Pub L. 115-91 § 603**, required the Military Departments to make direct payments to the MHPI entities (lessors) of 1% of the BAH amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under the military pay statute in **37 U.S.C. § 403(b)(3)(A)(i)** for the area in which the covered housing existed. From September 1, 2018 through December 2019, **Pub L. 115-232 § 606** required the Military Departments to make monthly direct payments to the MHPI entities of 5% of the BAH. From January 1, 2020 forward, **Pub. L.116-92 §§ 3036 and 3037** require the Military Departments to make monthly direct payments to the MHPI entities of 2.5% of BAH and "underfunded" projects may receive up to an additional 2.5% of BAH monthly at the determination of the Chief Housing Officer of the Department of Defense and Secretaries of the Military Departments until Congress modifies or rescinds this direction. Upon termination of the leasehold interest, all assets revert back to the Department at no-cost to either party. Upon dissolution of the LLC or LP and, after the contractual terms have been met, excess funds will be returned to the FHIF.

TABLE 25: CUMULATIVE CONTRIBUTIONS

Cumulative as of September 30 ($ in millions)	2020
Military Department Contributions to the DoD MHPI Program*	
Funding Contributions to DoD MHPI Program	$3,081.8
Real Property Contributions to the LLCs & LPs (value of Real Property Assets (RPA) Conveyed, per OMB Scoring Documents)	7,617.5
DoD Direct Payments as Required by Pub. L. 115-91 § 603 (1% BAH through August 2018), and 15-232 § 606 (5% BAH through December 2019), and 116-92 §§ 3036 and 3037 (2.5% BAH and 2.5% for underfunded projects)	176.2
Basic allowance for housing (BAH) under § 403 of Title 37 to members living in privatized housing	3,140.3
DoD Contributions from the MHPI Program to the LLCs/LPs*	
Direct Cash Contributions	1,607.2
Differential Lease Payments	16.5
Direct Loans Disbursed	1,891.9
Contributions by Private Partners to the MHPI Partnership	
Direct Cash Contributions	606.2
Bonds/Loans Contributed	11,259.0
Real Property and Land Contributions	1.6
Contributions by the LLCs/LPs	
Bonds/Loans Contributed	51.7

*The disclosures above are currently presented in the DoD's consolidated financial statements and are not presented within the Military Department's financial statements.

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

RISK

The Private Partner's potential risks are (1) inability to recover initial cash contributions, (2) inability to repay bonds and/or loans, and (3) loss of a long-term revenue source. The Private Partner is not entitled to the return of its capital contribution, or to be paid interest on its capital contribution. The Department's potential risks are (1) loss of the initial cash contribution to the program, (2) default by the Private Partner on a government direct loan, (3) guarantee threshold event, such as the need to request additional funds above the initial threshold amount, triggered under a loan guarantee agreement, (4) need to provide direct management support and financial contribution to the project until its completion if the Private Partner fails to comply with contractual terms, and (5) failure to deliver quality housing services to Military Personnel. Likewise, when unpredicted events occur, such as natural disasters and severe weather events, the Military Departments are required to provide direct intervention by restoring and rebuilding military housing.

To mitigate financial risk, each MHPI operating agreement prescribes to a revenue flow operating tool during the life of the arrangement and upon liquidation of the arrangement, in order to track revenue, expenses, cash flow, and operating metrics. The revenue flow generally allows the Private Partner an opportunity to earn incentives and returns for economic performance after providing capital for the maintenance of the facilities. Monies in excess of required reserves are returned to the FHIF at agreement liquidation.

The MHPI agreements do not explicitly identify risk of loss contingencies, although some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds to protect against unexpectedly high expenses. The Departments overall risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer), plus the commercial loan guarantees associated with the MHPI agreements.

The Department recognizes other risk scenarios may occur, such as Private Partner non-compliance with the MHPI agreements or risk of loan modifications. To address non-compliance risk, the Department performs reviews of compliance, a joint effort between the local military housing office, the Private Partners, Military Department installation commands, and other ranking members of the Military Department. These reviews can include neighborhood tours to view project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the Private Partner companies, as well as exteriors of military housing units. Private Partner performance is measured through a variety of metrics, such as resident satisfaction, maintenance management, project safety, and financial management. The Government Accountability Office Report, **GAO-20-280T**, Preliminary Observations on DoD's Oversight of the Condition of Privatized Military Housing, provides information about the Department's governance activities, and the National Defense Authorization Act **(NDAA) 2020** Sections 3001-3064 prescribes the authoritative guidance which defines the accountability and oversight measures of the MHPI projects, the protections and responsibilities for tenants, and any additional requirements relating to contracts and management of MHPI projects. To address the risk of loan modifications or restructures, which may be necessary to ensure the sustainability of affected projects, a sustainment review is required to be performed every two to three years, outlining the future needs of a project. This review occurs even when the projects may not be at risk of imminent loan default. On an annual basis, the Department is required to re-forecast projected cash flows to assess each project's sustainability. If the assessment results in a funding shortfall or going concern for the project, a loan modification may be requested from the OMB. OMB is required to approve all loan modifications before the Military Departments and LLs or LPs can begin to restructure the loan.

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

INVESTMENT RECOGNITION

Beginning in FY2020, the Department adopted **FASB ASC 323** Investments – Equity Method and Joint Ventures to account for its investments in LPs and LLCs engaged in MHPI projects. This treatment was chosen in the absence of specific FASAB accounting standards for the MHPI financial arrangement. The Department subsequently rescinded the policy requiring FASB ASC 323 and, instead, required Military Departments to provide details of the MHPI agreements and associated financial activity in the footnote disclosures.

OMB A-136 SIGNIFICANT ENTITY DISCLOSURE REQUIREMENT

The Military Departments are assessing their MHPI agreements and contracts to provide actual and estimated amounts paid and received by the Department for future periods, in compliance with OMB A-136's significant entity disclosure requirement.

The Components continue to assess agreements using criteria from **SFFAS 49** to determine if they have P3s to disclose. The Department will report these agreements as soon as these assessments are complete.

NOTE 26: DISCLOSURE ENTITIES AND RELATED PARTIES

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). In accordance with **SFFAS 47 "Reporting Entity"**, the financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are, in aggregate, not quantitatively material to the DoD consolidated financial statement; however, both are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents.

NONAPPROPRIATED FUND INSTRUMENTALITIES

The Department has a relationship with NAFIs, entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to enhance the quality of life of DoD personnel, retired Military Service members, and dependents of such members, and to support military readiness, recruitment, and retention. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of **Title 10, U.S.C.** The Department does not have any ownership interest in the NAFIs; however, the Department establishes them and requires DoD components to assign organizational responsibility for NAFI administration, management, and control. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are currently approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

(1) Military Morale, Welfare, and Recreational (MWR) Programs,

(2) Armed Services Exchange Programs,

(3) Civilian MWR Programs,

(4) Lodging Program Supplemental Mission Funds,

(5) Supplemental Mission Funds, and

(6) Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness (**USD(P&R)**) exercises overall policy direction for and oversight of DoD NAFI activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (**USD(C)/CFO**) and the Defense Finance and Accounting Service (**DFAS**), in coordination with the USD(P&R), provide guidance on accounting policies to the NAFI for use in the preparation of financial statements for their annual audit. DoD Components appoint advisory groups to ensure that each NAFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial audits conducted by independent public accounting firms.

NAFIs present very limited financial and non-financial risks to the Department. NAFIs are separate legal entities apart from the DoD, and they are operated and accounted for in financial systems separate from DoD. Historically, appropriated funding in support of the NAFIs is less than one percent of the sponsor's budgetary resources. Together, these factors limit the Federal Government's financial exposure.

NOTE 26: DISCLOSURE ENTITIES AND RELATED PARTIES (CONTINUED)

FEDERALLY FUNDED RESEARCH AND DEVELOPMENT CENTERS

The Department maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing government or contractor resources. The work performed by the FFRDCs provide benefits to the Department, which support national security. FFRDCs that provide support to the Department are classified into three categories:

(1) Research and Development Laboratories,

(2) Systems Engineering and Integration Centers, and

(3) Study and Analysis Centers.

FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest.

The Department does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets annual limits on the amount of staff-years of technical effort that may be funded for FFRDC s. Historically, funding placed on contract to the FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional controls on staff-years of effort and funding, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

RELATED PARTIES

Related Parties Organizations are considered related parties if: (1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions and (2) the organizations do not meet the inclusion principles of SFFAS 47. The Department has identified Public Private Partnerships which have been reported as related parties. However, the Department continues to perform assessments to determine if instead they meet the criteria for consolidation or disclosure entities, in accordance with SFFAS 47. See Note 25, *Public Private Partnerships*, for additional disclosures.

NOTE 27: SECURITY ASSISTANCE ACCOUNTS

The Department of Defense (DoD) has a significant role, and works closely with the U.S. Department of State in the execution of the activities of the Security Assistance Accounts (SAA), which is budgeted and reported in **Title 22, Foreign Relations and Intercourse** under the purview of the Foreign Relations Committee in Congress. The SAA is a significant reporting entity, and in accordance with **SFFAS 47 "Reporting Entity"**, its stand-alone financial statements are consolidated directly into the U.S. Government-wide financial statements.

Due to DoD's considerable activities executing **Foreign Military Sales**, the SAA financial statements and associated notes have been included in Appendix D of the DoD Agency Financial Report. In FY 2020 and FY 2019, SAA reported approximately $244.5 billion and $64.3 billion, respectively, in budgetary resources; $86.0 billion and $123.3 billion, respectively, in assets; and $139.3 billion and $110.5 billion, respectively, in liabilities, mostly attributable to the Foreign Military Sales Trust Fund. Of these amounts, in FY 2020 and FY 2019, approximately 97% and 86%, respectively, of budget authority; 87% and 90%, respectively, of assets; and 98% and 96%, respectively, of liabilities are financed primarily by foreign countries and deposits to acquire military weapons for those countries.

The DoD leverages its financial and acquisition systems to facilitate the acquisition of U.S. weapon systems by foreign countries. Based on the contract terms included in the agreements with each foreign country acquiring assets utilizing the Foreign Military Sales Trust Fund, there is minimal financial risk to the DoD or the U.S. Government resulting from the transactions entered into.

NOTE 28: RESTATEMENTS

The Department restated its financial statements as of September 30, 2020 to correct changes in accounting principles in cost capitalization offset at the end of FY 2020.

The following notes are restated: Note 19, *Disclosures Related to the Statement of Net Cost*, Note 20 *Disclosures Related to the Statement of Changes in Net Position*, Note 24, *Reconciliation of Net Cost to Net Outlays*, Note 30, *Subsequent Events*, and Note 31, *Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Compilation in the U.S. Government-wide Financial Report*.

TABLE 28A. EFFECT ON FY 2020 COMPARATIVE BALANCES

($ in millions)

FY 2020 STATEMENT OF NET COST	
Gross Program Costs: Procurement	$9,289.5
Total Gross Program Costs	9,289.5
Net program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	9,289.5
Net Cost of Operations	**$9,289.5**

FY 2020 STATEMENT OF CHANGES IN NET POSITION	
Cumulative Results of Operations - Prior Period Adjustments: Change in Accounting Principles	$9,289.6
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections)	9,289.6
Other Financing Sources (Nonexchange): Other	(.1)
Total Financing Sources (Includes Funds from Dedicated Collections)	(.1)
Net Cost of Operations (Includes Funds from Dedicated Collections)	9,289.5
Net Change	**($9,289.6)**

NOTE 28: RESTATEMENTS (CONTINUED)

The Department restated its financial statements as of September 30, 2019 to correct errors in General PP&E (net), Operating Materiel & Supplies, Accounts Payable, Unexpended Appropriations, Cumulative Results of Operations – Other Funds and budgetary resources at the end of FY 2019.

The following notes were restated: Note 2, *Non-Entity Assets*; Note 3, *Fund Balance with Treasury*; Note 8, *Inventory and Related Property*, Net; Note 9, *General PP&E, Net*; Note 11, *Liabilities Not Covered by Budgetary Resources*; Note 20, *Disclosures Related to the Statement of Changes in Net Position* and Note 21; *Disclosures Related to the Statement of Budgetary Resources* and Note 24, *Reconciliation of Net Cost to Net Outlays*.

TABLE 28B. EFFECT ON FY 2020 BEGINNING CUMULATIVE RESULTS OF OPERATIONS AND UNEXPENDED APPROPRIATIONS

($ in millions)

FY 2020 NET POSITION	
Unexpended Appropriations – Other Funds	$(1,222.4)
Cumulative Results of Operations – Other Funds	(136.4)
Total Net Position	**$(1,358.8)**

TABLE 28C. EFFECT ON FY 2019 COMPARATIVE BALANCES

($ in millions)

FY 2019 BALANCE SHEET		
Inventory and Related Property, Net	*(net effect of restatements)*	$1,115.9
General PP&E, Net		(2,363.7)
Total Assets		**$(1,247.8)**
Accounts Payable - Intragovernmental		(0.1)
Accounts Payable - Non-Federal		111.1
Total Liabilities		**111.0**
Unexpended Appropriations – Other Funds		(1,222.4)
Cumulative Results of Operations – Other Funds		(136.4)
Total Net Position		**$(1,358.8)**

FY 2019 STATEMENT OF CHANGES IN NET POSITION	
Unexpended Appropriations - Prior Period Adjustments: Corrections of errors	$(1,222.4)
Total Unexpended Appropriations (Includes Funds from Dedicated Collections)	**(1,222.4)**
Cumulative Results of Operations - Prior Period Adjustments: Corrections of errors	(136.4)
Beginning Balances, as adjusted (Includes Funds from Dedicated Collections)	**(136.4)**
Cumulative Results of Operations (Includes Funds from Dedicated Collections)	**(136.4)**
Net Position	**$(1,358.8)**

FY 2019 STATEMENT OF BUDGETARY RESOURCES	
New obligations and upward adjustments (total)	$16.0
Apportioned, unexpired accounts	(16.0)
Unexpired unobligated balance, end of year	**(16.0)**
Unobligated balance, end of year (total)	**$(16.0)**

NOTE 29: COVID-19 ACTIVITY

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and federal, state and local government operations. Two of these public laws have a direct impact on the Department through the provision of $10.6 billion in supplemental appropriations.

FAMILIES FIRST CORONAVIRUS RESPONSE ACT

The Families First Coronavirus Response Act (**FFCRA**) (Public Law 116-127) was signed into law on March 18, 2020. FFCRA responds to the COVID-19 outbreak by providing paid sick leave, tax credits, free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding. Included in the FFCRA was $82.0 million in supplemental funding for the DoD Defense Health Program to provide expanded family and medical leave to covered employees up to an additional 10 weeks of paid leave at two-thirds rate of pay, up to 80 hours of emergency paid sick leave to all Federal civilian employees in specified circumstances related to COVID-19.

TABLE 29A: DOD APPROPRIATIONS IN THE FFCRA (P.L. 116-127)

($ in millions)	
Appropriations Enacted	
Defense Health Program	$82.0
Defense-Wide Total	82.0
TOTAL DoD Appropriations	$82.0

CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY ACT

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (**CARES Act**) (Public Law 116-136) was signed into law, which provides FY2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations are designated as emergency spending, which is exempt from discretionary spending limits. Within the DoD budget, the CARES Act provided the Department with $10.6 billion in supplemental funding for National Guard personnel, operation and maintenance, Defense Production Act (**50 U.S.C. 4532(c)(1)**) purchases, the Defense Working Capital Funds, the Defense Health Agency, and the Office of the Inspector General.

In an effort to quickly respond to pandemic needs, the CARES Act waives certain undefinitized contract restrictions for the Department to authorize contractors to begin work before reaching a final agreement on contract terms, specifications, or price where it is determined the waiver is necessary due to the national emergency for COVID-19. The CARES Act also allows the DoD to waive certain restrictions on the usage of other transaction authority in contracts related to COVID-19, affording the DoD the authority to enter into certain contracts generally exempt from federal procurement laws and regulations.

On April 10, 2020, the Office of Management and Budget (OMB) issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, **OMB Memorandum M-20-21** directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. OMB M-20-21 further instructed agencies to consider three core principles: (1) mission achievement, by using data and evidence to meet program objectives; (2) expediency in issuing awards to meet crucial needs; and (3) transparency and accountability to the public.

NOTE 29: COVID-19 ACTIVITY (CONTINUED)

TABLE 29B: DOD APPROPRIATIONS IN THE CARES ACT (P.L. 116-136)

($ in millions)	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
Appropriation			
Military Personnel, Army	$-	$89.4	$89.4
National Guard Personnel, Army	746.6	(677.0)	69.6
Operations & Maintenance (O&M), Army	160.3	728.1	888.4
O&M, Army Reserve	48.0	(12.0)	36.0
O&M, Army National Guard	186.7	(122.1)	64.6
Other Procurement, Army	-	61.4	61.4
Research, Development, Test & Evaluation (RDT&E), Army	-	65.3	65.3
Department of the Army Total	**1,141.6**	**133.1**	**1,274.7**
Military Personnel, Navy	-	3.0	3.0
Military Personnel, Marine Corps	-	5.4	5.4
Reserve Personnel, Marine Corps	-	0.2	0.2
O&M, Navy	360.3	545.9	906.2
O&M, Marine Corps	90.0	100.5	190.5
O&M, Navy Reserve	-	6.3	6.3
Other Procurement, Navy	-	10.8	10.8
Working Capital Fund, Navy**	475.0	-	475.0
Department of the Navy Total	**925.3**	**672.1**	**1,597.4**
Military Personnel, Air Force	-	106.1	106.1
Reserve Personnel, Air Force	-	16.7	16.7
National Guard Personnel, Air Force	482.1	(424.7)	57.4
O&M, Air Force	155.0	783.4	938.4
O&M, Air Force Reserve	-	19.6	19.6
O&M, Air National Guard	75.8	(58.8)	17.0
Other Procurement, Air Force	-	32.1	32.1
RDT&E, Air Force	-	60.0	60.0
Working Capital Fund, Air Force **	475.0	2.8	477.8
Department of the Air Force Total	**1,187.9**	**537.2**	**1,725.1**

NOTE 29: COVID-19 ACTIVITY (CONTINUED)

TABLE 29B: DOD APPROPRIATIONS IN THE CARES ACT (P.L. 116-136) (CONTINUED)

	Original Emergency Supplemental Funding	Subsequent Department Reprogramming Actions	Net
O&M, Defense-Wide	827.8	(540.0)	287.8
Procurement, Defense-Wide	-	2.1	2.1
Defense Production Act Purchases	1,000.0	(100.0)	900.0
Defense Production Act Program Account	-	100.0	100.0
RDT&E, Defense-Wide	-	298.1	298.1
Working Capital Fund, DW (DeCA)	-	34.7	34.7
Working Capital Fund, DW (DLA) **	500.0	30.2	530.2
Overseas Humanitarian, Disaster, and Civic Aid (OHDACA)	-	120.3	120.3
Defense Health Program	3,806.1	(1,302.7)	2,503.4
Defense Health Program (Non-COVID)*	1,095.0	-	1,095.0
Chemical Agents & Munitions Destruction	-	14.9	14.9
Office of Inspector General	20.0	-	20.0
Defense-Wide Total	**7,248.9**	**(1,342.4)**	**5,906.5**
TOTAL DoD Appropriations	**10,503.7**	**-**	**10,503.7**
O&M, U.S. Army Corps of Engineers (USACE)	50.0	-	50.0
General Expenses, USACE	20.0	-	20.0
U.S Army Corps of Engineers Total	**70.0**	**-**	**70.0**
TOTAL DoD and USACE Appropriations	**$10,573.7**	**$-**	**$10,573.7**

* Additional Appropriations non-COVID-19 related, per section 13002

** To position funds to address an anticipated impact on cash liquidity that may result from expected increases in customer transactions with WCFs related to the prevention of, preparation for, and response to coronavirus.

OTHER INFORMATION

As of September 30, 2020, obligations and outlays related to the supplemental funding ($10,655.7 million) were $8.1 billion and $2.7 billion, respectively. Remaining available funding for future obligations is $1.0 billion.

NOTE 29: COVID-19 ACTIVITY (CONTINUED)

OTHER INFORMATION (CONTINUED)

Disbursements for COVID-19 prevention, preparation and response include:

- Purchase of medical supplies and equipment;
- Payroll/other personnel costs;
- Co-pay/cost share waivers for COVID-19 diagnostic testing and health care related expenses;
- Training, mobilization and preparedness;
- Operations support programs and base support;
- Emergency operations support;
- Restriction of movement measures and quarantine implementation;
- Cost of isolation measures to include stocking Meals, Ready to Eat (MREs), to be served to Soldiers, in lieu of dining facility operations to maintain social distancing;
- Enhancements of IT equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training;
- Purchase of non-medical personal protective equipment;
- Cleaning/disinfecting supplies and contracts;
- Measures to mitigate impacts at recruit training depots;
- Increased cost of conducting initial entry and advanced individual training with appropriate distancing measures;
- Costs incurred to deliver inventory at overseas commissaries;
- Continued operations of Non-appropriated Fund Instrumentalities;
- Administrative costs.

The Department of the Army continues to support other federal agencies participating in Operation Warp Speed through Army contracting support, facilitating the procurement of supplies that will be needed to distribute and administer approved COVID-19 vaccines.

The Department has incurred costs related to the pandemic that are not reimbursable from the supplemental funding, but will be paid from DoD's existing budgetary resources. As of September 30, 2020, the estimated obligations and outlays are $1.1 billion and $562.9 million, respectively.

Additionally, the Department is performing reimbursable work on behalf of other Federal agencies who received supplemental funding related COVID-19. Reimbursable work includes funding authority of $1.3 billion received from Federal Emergency Management Agency (FEMA) for assessments and construction of Alternate Care Facilities (ACF). These facilities were set up across the nation in order to supplement hospital capacity during the onset of COVID-19. These ACF's were to either supplement a regular hospital bed shortage or Intensive Care Units (ICU) as needed. In addition, the Department received cash advances from Department of Health and Human Services ($1.6 million) and Federal Emergency Management Agency ($289.0 million) to deliver ventilators, Battelle sterilization units, personal protective equipment, and food and medical supplies in support the national COVID-19 efforts.

See Note 7, *Direct Loan and Loan Guarantees, Non-Federal Borrowers*, for information related to federal loans to create, maintain, protect, expand or restore domestic industrial base capabilities to support national COVID-19 response. As of September 30, 2020, no loans have been approved or disbursed under **Executive Order 13922**, which authorizes the activity.

The impact on the Department's assets, liabilities, costs, revenues, and net position cannot be separately determined, as mechanisms within the financial reporting systems needed to track such transactions through the proprietary accounts generally do not exist. However, given the nature of the COVID-19 transactions, impacts to the Department's balances in the following accounts would be expected, although not easily quantifiable: Fund Balance with Treasury, Accounts Receivable, Inventory, General PP&E, Non-federal and Intragovernmental Accounts Receivable and Payables. In addition, impacts would be expected to the Statement of Net Cost and the Statement of Changes in Net Position.

NOTE 30: SUBSEQUENT EVENTS

As of the date of this report, there is one subsequent discovery of fact to report, which warranted a revision to the financial statements. The Department of the Navy General Fund recorded an adjustment to changes in accounting principles for $9.3 billion. The adjustment was for the cost capitalization offset with revalued aircraft. See Note 28, *Restatements* for further information.

The below DoD Component's FY 2020 financial statements and related notes were not yet finalized. As a result, these DoD consolidated/combined financial statements were prepared using current draft financial statements of the outstanding DoD Component. If changes that are material to the DoD Agency-wide consolidated/combined financial statements are identified upon the finalization of the outstanding DoD Component's financial statements, the Department would restate the DoD Agency-wide financial statements.

Office of the Inspector General

NOTE 31: RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR COMPILATION IN THE U.S. GOVERNMENT-WIDE FINANCIAL REPORT

RESTATEMENT

The Department reevaluated the treatment of an equipment revaluation resulting in a $9.3 billion understatement to the cost capitalization offset for the revaluation of aircraft. See Note 28, *Restatements* for further information.

OTHER DISCLOSURES

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government (**FR**). The FY 2020 FR will be published by **The Bureau of Fiscal Service** upon its release.

To prepare the FR, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances, which represent activity between agencies, from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The following tables display the relationship between the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances. Certain financial statement lines are presented prior to aggregation of repeated items. The table also displays the details of Dedicated Collections and All Other Funds (funds that are non-dedicated Collections). The following four columns sum across to the Total amount and may be defined as follows:

- "Dedicated Collections Combined" represents all transactions identified as Funds from Dedicated Collections prior to the elimination of any intra-DoD transactions.
- "Dedicated Collections Eliminations" reflects identified transactions between the Department's Dedicated Collections.
- "All Other Amounts (with Eliminations)" includes funds other than Dedicated Collections, presented net of their eliminations.
- "Eliminations between Dedicated and All Other" reflects intra-DoD transactions between Funds from Dedicated Collections and other funds.

"Non-Federal" transactions are with individuals, businesses, non-profit entities, and State, local, and foreign governments.

BALANCE SHEET

FY 2020 Department of Defense Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
ASSETS							**ASSETS**
Intragovernmental Assets							**Intragovernmental Assets**
Fund Balance with Treasury (Note 3)	$637,175.8	4,810.1		632,365.7		$637,175.8	FBWT
Investments (Note 5)	1,273,675.6	10,998.3		1,262,677.3		1,273,675.6	Federal investments
Investments (Note 5)	8,091.4	30.8		8,060.6		8,091.4	Interest receivable - investments
Total Investments	$1,918,942.8					$1,918,942.8	Total Reclassified Investments
Accounts Receivable (Note 6)	1,667.8	1.4		1667.8	(1.4)	1,667.8	Accounts receivable, net
Accounts Receivable (Note 6)	547.1	532.1		15.0		547.1	Transfers receivable
Total Accounts Receivable	$2,214.9					$2,214.9	Total Reclassified A/R
Other Assets (Note 10)	879.6			879.6		879.6	Advances to others and prepayments
Total Other Assets	$879.6					$879.6	Total Reclassified Other Assets
Total Intragovernmental Assets	$1,922,037.3					$1,922,037.3	Total Intragovernmental Assets
With the public							**With the public**
Cash and Other Monetary Assets (Note 4)	966.3	3.5		962.8		966.3	Cash and other monetary assets
Accounts Receivable, Net (Note 6)	5,149.9	10.0		5,139.9		5,149.9	Accounts receivable, net
Loans Receivable (Note 7)	1,602.6			1,602.6		1,602.6	Direct loan and loan guarantees receivable, net
Inventory and Related Property, Net (Note 8)	310,210.5			310,210.5		310,210.5	Inventory and related property, net
General Property, Plant and Equipment, Net (Note 9)	790,505.2	523.6		789,981.6		790,505.2	General PP&E, net
Investments (Note 5)	3,511.6			3,511.6		3,511.6	Securities and investments
Other Assets (Note 10)	20,733.2	0.2		20,733.0		20,733.2	Other assets
Total with public	$1,132,679.3					$1,132,679.3	Total with public
Total assets	$3,054,716.6					$3,054,716.6	**Total assets**

BALANCE SHEET (CONTINUED)

FY 2020 Department of Defense Balance Sheet (Continued) ($ in millions) Financial Statement Line	Amounts	Line Items Used to Prepare FY 2020 Government-wide Balance Sheet: Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
LIABILITIES							**LIABILITIES**
Intragovernmental Liabilities							**Intragovernmental Liabilities**
Other Liabilities (Notes 15 and 17)	1,994.8			1,994.8		1,994.8	Benefit program contributions payable
Accounts Payable	3,620.7	32.9		3,601.3	(13.5)	3,620.7	Accounts payable
Accounts Payable	0.7			0.7		0.7	Transfers payable
Total Accounts Payable	$5,616.2					$5,616.2	Total Reclassified A/P
Debt (Note 12)	1,662.6			1,662.6		1,662.6	Loans payable
Total Debt Associated with Loans	$1,662.6					$1,662.6	Total Reclassified Debt Associated with Loans
Other Liabilities (Notes 15 and 17)	4,638.5			4,638.5		4,638.5	Advances from others and deferred credits
Other Liabilities (Notes 15 and 17)	63.2			63.2		63.2	Other liabilities (w/o reciprocals)
Other Liabilities (Notes 15 and 17)	3,030.4	2.3		3,028.1		3,030.4	Liability to the GF of the USG for custodial and other non-entity assets
Other Liabilities (Notes 15 and 17)	2.3			2.3		2.3	Liability to agency other than GF for custodial and other non-entity assets
Total Other Liabilities	$7,734.4					$7,734.4	Total Reclassified Other Liabilities
Total Intragovernmental Liabilities	$15,013.2					$15,013.2	Total Intragovernmental Liabilities

Table continues on next page

BALANCE SHEET: (CONTINUED)

FY 2020 Department of Defense Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
With the public							**With the public**
Accounts Payable	36,121.2	127.7		35,993.5		36,121.2	Accounts payable
Military Retirement and Other Federal	2,668,096.4			2,668,096.4		2,668,096.4	Federal employee and veteran benefits payable
Environmental and Disposal Liabilities (Note 14)	75,041.9	30.7		75,011.2		75,041.9	Environmental and disposal liabilities
Other Liabilities (Notes 15 and 17)	2.3			2.3		2.3	Benefits due and payable
Loan Guarantee Liability (Note 7)	44.1			44.1		44.1	Loan guarantee liability
Other Liabilities (Notes 15 and 17)	25,291.3	1,891.0		23,400.3		25,291.3	Other liabilities
Total with public	$2,804,597.2					$2,804,597.2	Total with public
Total liabilities	$2,819,610.4					$2,819,610.4	**Total liabilities**
NET POSITION							**NET POSITION**
Cumulative Results of Operations - Dedicated Collections	32,557.9	14,825.4		17,732.5		32,557.9	Cumulative results of operations - Funds from Dedicated Collections
Unexpended Appropriations - Other Funds	569,725.2			569,725.2		569,725.2	Unexpended appropriations - All Other Funds
Cumulative Results of Operations - Other Funds	(367,176.9)			(366,480.0)	(696.9)	(367,176.9)	Cumulative results of operations - All Other Funds
Total Net Position	$235,106.2					$235,106.2	Total Net Position
Total Liabilities and Net Position	$3,054,716.6					$3,054,716.6	**Total Liabilities and Net Position**

STATEMENT OF NET COST

FY 2020 Department of Defense Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost					
($ in millions) Financial Statement Line[1]	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Gross Costs							**Gross Cost**
Gross Costs	$768,698.8	1,701.0		766,997.8		$768,698.8	Non-federal gross cost
Losses/(Gains) from Actuarial Assumption Changes	(17,375.3)			(17,375.3)		(17,375.3)	Gains/losses from changes in actuarial assumptions non-federal
Total non-federal gross cost	$751,323.5					$751,323.5	Total non-federal gross cost
Intragovernmental Costs							**Intragovernmental Costs**
Gross Costs	17,122.0	13.7		17,108.3		17,122.0	Benefit program costs (RC 26) - Footnote 2
Gross Costs	4,608.2	6.9		4,601.3		4,608.2	Imputed costs (RC 25) - Footnote 2
Gross Costs	22,278.3	297.1	(51.5)	22,165.9	(133.2)	22,278.3	Buy/sell cost (RC24) - Footnote 2
Gross Costs	236.2			236.2		236.2	Purchase of assets (RC 24) - Footnote 2
Gross Costs	64.8			64.8		64.8	Borrowing and other interest expense (RC05) - Footnote 2
Gross Costs	4,393.3	4.2		4,389.1		4,393.3	Other expenses (w/o reciprocals) (RC 29)
Total Intragovernmental Costs	$48,702.8					$48,702.8	Total Intragovernmental Costs
Total Gross Costs	$800,026.3					$800,026.3	Total Reclassified Gross Costs
Earned Revenue							**Earned Revenue**
(Less: Earned Revenue)	(40,262.9)	(1,892.5)		(38,370.4)		(40,262.9)	Non-federal earned revenue

Table continues on next page

STATEMENT OF NET COST (CONTINUED)

FY 2020 Department of Defense Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost					
($ in millions) Financial Statement Line[1]	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Intragovernmental Earned Revenue							**Intragovernmental Earned Revenue**
(Less: Earned Revenue)	(233.6)			(233.6)		(233.6)	Benefit program revenue (exchange) (RC 26) - Footnote 2
(Less: Earned Revenue)	(10,436.6)		51.5	(10,461.6)	(26.5)	(10,436.6)	Buy/sell revenue (exchange) (RC 24) - Footnote 2
Gross Costs	(236.2)			(236.2)		(236.2)	Purchase of assets offset (RC 24) / 2
(Less: Earned Revenue)	(30,307.3)	(36.2)		(30,271.1)		(30,307.3)	Federal securities interest revenue including associated gains and losses (exchange) (RC 03) - Footnote 2
(Less: Earned Revenue)	(4.5)			(4.5)		(4.5)	Borrowing and other interest revenue (exchange) (RC 05) - Footnote 2
Total Intragovernmental earned revenue	$(41,218.2)					$(41,218.2)	Total Intragovernmental earned revenue
Total Earned Revenue	$(81,481.1)					$(81,481.1)	Total Reclassified Earned Revenue
Net Cost of Operations	$718,545.2					$718,545.2	**Net Cost of Operations**

1. The subtotals and totals above are not presented on the DoD's Statement of Net Cost, but are reflective of their classification on the reclassified statements.

However, the repeated line descriptions (i.e., "Gross Costs") may be summed to trace to the face of the DoD's Statement of Net Cost:

Gross Cost	$817,165.4
Gross Cost Rounding	(0.1)
Less: Earned Revenue	(81,244.9)
Less: Earned Revenue Rounding	0.1
Losses/(Gains) from Actuarial Assumption Changes	(17,375.3)
	$718,545.2

STATEMENT OF CHANGES IN NET POSITION

FY 2020 Department of Defense Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Changes in Net Position					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined[2]	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Beginning Balances (Includes Funds from Dedicated Collections)	$128,568.0	15,021.0		113,547.0		$128,568.0	Net position, beginning of period
Non-Federal Prior-Period Adjustments:							**Non-Federal Prior-Period Adjustments:**
Changes in accounting principles (+/-)	1,858.7			1,858.7		1,858.7	Changes in accounting principles
Corrections of errors (+/-)	(16.4)			(16.4)		(16.4)	Corrections of errors - non-federal
Federal Prior-Period Adjustments							**Federal Prior-Period Adjustments**
Corrections of errors	(14.7)			(14.7)		(14.7)	Prior period adjustment to unexpended appropriations - federal (RC 31)
Corrections of errors (+/-)	14.7			14.7		14.7	Prior period adjustment to expended appropriations - federal (RC 32)
Net Position, Beginning of Period - Adjusted	$130,410.3					$130,410.3	**Net Position, Beginning of Period - Adjusted**
Non-Federal Non-exchange Revenue:							**Non-Federal Non-exchange Revenue:**
Nonexchange revenue	(5,843.0)	625.9		(6,468.9)		(5,843.0)	Other taxes and receipts
Total non-federal non-exchange revenue	$(5,843.0)					$(5,843.0)	Total non-federal non-exchange revenue
Federal Non-Exchange Revenue:							**Federal Non-Exchange Revenue:**
Nonexchange revenue	146.0	143.6		2.4		146.0	Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03) /1
Nonexchange revenue	111.7	111.7				111.7	Other taxes and receipts (RC 45) /1
Nonexchange revenue	1,321.0	1,321.0				1,321.0	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 15)

Table continues on next page

STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

FY 2020 Department of Defense Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Changes in Net Position					
($ in millions) Financial Statement Line	Amounts	Dedicated Collections Combined[2]	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Other (+/-)	(8.6)			(8.6)		(8.6)	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 16)
Total federal non-exchange revenue	$1,570.1					$1,570.1	Total federal non-exchange revenue
Budgetary Financing Sources:							**Budgetary Financing Sources:**
Appropriations received	823,946.7			823,946.7		823,946.7	Appropriations received as adjusted (rescissions and other adjustments) (RC 41) /1
Appropriations used	(798,350.1)			(798,350.1)		(798,350.1)	Appropriations used (RC 39)
Appropriations used	798,350.1			798,350.1		798,350.1	Appropriations expended (RC 38) /1
Transfers-in/out without reimbursement		82.0	(82.0)				Appropriation of unavailable special or trust fund receipts transfers-in (RC 07) /1
Transfers-in/out without reimbursement		(82.0)	82.0				Appropriation of unavailable special or trust fund receipts transfers-out (RC 07) /1
Transfers-in/out without reimbursement	1,971.9	1,702.2	(1,665.4)	1,935.1		1,971.9	Non-expenditure transfers-in of unexpended appropriations and financing sources (RC 08) /1
Transfers-in/out without reimbursement	(210.5)	(1,706.7)	1,665.4	(169.2)		(210.5)	Non-expenditure transfers-out of unexpended appropriations and financing sources (RC 08) /1
Transfers-in/out without reimbursement	-	2.2	(1,618.7)	1,618.7	(2.2)	-	Expenditure transfers-in of financing sources (RC 09) /1
Transfers-in/out without reimbursement	(1,447.7)	(1,618.7)	1,618.7	(1,447.7)		(1,447.7)	Expenditure transfers-out of financing sources (RC 09) /1
Other adjustments (+/-)	(265.7)			(265.7)		(265.7)	Revenue and Other Financing Sources - Cancellations (RC 36)
Total budgetary financing sources	$823,994.7					$823,994.7	Total budgetary financing sources
Other Financing Sources:							**Other Financing Sources:**

Table continues on next page

STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

FY 2020 Department of Defense Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Changes in Net Position					
($ in millions) **Financial Statement Line**	**Amounts**	**Dedicated Collections Combined²**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Transfers-in/out without reimbursement (+/-)	(220.9)	15.2	(141.4)	(94.7)		(220.9)	Transfers-in without reimbursement (RC 18)/1
Transfers-in/out without reimbursement (+/-)	(176.5)	(731.2)	141.4	(179.1)	592.4	(176.5)	Transfers-out without reimbursement (RC 18) /1
Imputed financing from costs absorbed by others	4,608.2	6.9		4,601.3		4,608.2	Imputed financing sources (RC 25) /1
Other (+/-)	(697.6)			(697.6)		(697.6)	Non-entity collections transferred to the General Fund of the U.S. Government (RC 44)
Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government (RC 48)	6.2			6.2		6.2	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government (RC 48)
Total other financing sources	$3,519.4					$3,519.4	Total other financing sources
Net cost of operations (+/-)	$(718,545.2)					$(718,545.2)	Net cost of operations (+/-)
Net Position, End of Period	$235,106.3					$235,106.3	**Net Position, End of Period**

2. Reconciliation of Note 31 Dedicated Collections Combined to Note 18

	Note 18	**Note 31 Dedicated Collections Combined**	
Net position beginning of period	15,021.0	15,021.0	
			Non-Federal Nonexchange Revenue:
Nonexchange revenue	2,089.9	513.6	Non-Federal Nonexchange Revenue
Donations and forfeitures of cash and cash equivalents	55.6	55.6	Non-Federal Donations
Non-Federal Other financing sources, other (+/-) (1 of 2)	56.7	56.7	Non-Federal Other Taxes and Receipts
		1,576.3	Federal Nonexchange Revenue
Transfers-in/out without reimbursement (+/-)	(1,621.0)	(1,621.0)	Budgetary Financing Sources: Transfers-in/out without reimbursement (+/-)
Transfers-in/out without reimbursement (+/-)	(716.0)	(716.0)	Other Financing Sources: Transfers-in/out without reimbursement (+/-)
Imputed financing costs absorbed by others (+/-)	6.9	6.9	Imputed financing from costs absorbed by others
	14,893.1	14,893.1	
Reporting Differences: Items not included in the Reclassified Statement of Net Position (Expenses, Exchange Revenue, and Exchange Gains and Losses)			
Federal Other financing sources, other (+/-) (2 of 2)	26.5		
Less: Net cost of operations	(94.2)		
Net Position End of Period - Dedicated Collections	14,825.4	14,893.1	

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with SFFAS 42, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, **Standardizing Facility Condition Assessments.** The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- Category 2: Buildings, Structures, and Linear Structures that are Heritage Assets; and
- Category 3: Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (CONTINUED)

TABLE RSI-1: REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (EXCLUDING MILITARY FAMILY HOUSING)

As of September 30 ($ in millions)	2020		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$1,285,781.2	$106,459.4	8%
Category 2	103,444.5	14,794.1	14%
Category 3	54,141.5	9,789.0	18%
Total	$1,443,367.2	$131,042.5	9%

	2019		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$1,153,937.2	$101,584.8	9%
Category 2	81,209.7	11,332.8	14%
Category 3	38,216.2	6,074.0	16%
Total	$1,273,363.1	$118,991.6	9%

TABLE RSI-2: REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (MILITARY FAMILY HOUSING ONLY)

As of September 30 ($ in millions)	2020		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$25,472.0	$5,257.0	21%
Category 2	711.0	195.0	27%
Category 3	665.0	289.0	43%
Total	$26,848.0	$5,741.0	21%

	2019		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$24,285.0	$3,197.0	13%
Category 2	595.0	162.0	27%
Category 3	410.0	105.0	26%
Total	$25,290.0	$3,464.0	14%

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS (CONTINUED)

As of the end of FY 2020, the Department estimates facility maintenance cost of more than $131.0 billion for facilities with replacement cost of $1.4 trillion. The totals include $4.6 billion in civil works related maintenance needs under the USACE with replacement cost of more than $267.1 billion.

MAINTENANCE AND REPAIR POLICIES

The Department is migrating to the Sustainment Management System (SMS), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

MAINTENANCE AND REPAIR PRIORITIZATION AND ACCEPTABLE CONDITION STANDARDS

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

DEFERRED MAINTENANCE AND REPAIR EXCLUSIONS

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS

TABLE RSI-3: EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS

As of September 30 ($ in millions)	2020	2019
Major Categories		
Aircraft	$832.8	$986.3
Automotive Equipment	303.4	19.3
Combat Vehicles	91.1	284.6
Construction Equipment	76.4	11.5
Electronics and Communications Systems	252.1	122.9
Missiles	118.9	52.1
Ships	137.1	525.6
Ordnance Weapons and Munitions	385.4	88.2
Other Items Not Identified Above	113.9	75.3
Total	$2,311.1	$2,165.8

MAINTENANCE AND REPAIR POLICIES

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution (PPBE) process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS (CONTINUED)

MAINTENANCE AND REPAIR POLICIES (CONTINUED)

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

MAINTENANCE AND REPAIR PRIORITIZATION AND ACCEPTABLE CONDITION STANDARDS

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

DEFERRED MAINTENANCE AND REPAIR EXCLUSIONS

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

SIGNIFICANT CHANGES IN DEFERRED MAINTENANCE AND REPAIR

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems increased by $145.3 million during FY 2020. The increase was primarily driven by parts constraints, unplanned in-service repair, and increased unit costs related to aircraft as well as workload growth related to ships.

TABLE RSI-4: COMBINING STATEMENT OF BUDGETARY RESOURCES (BUDGETARY)

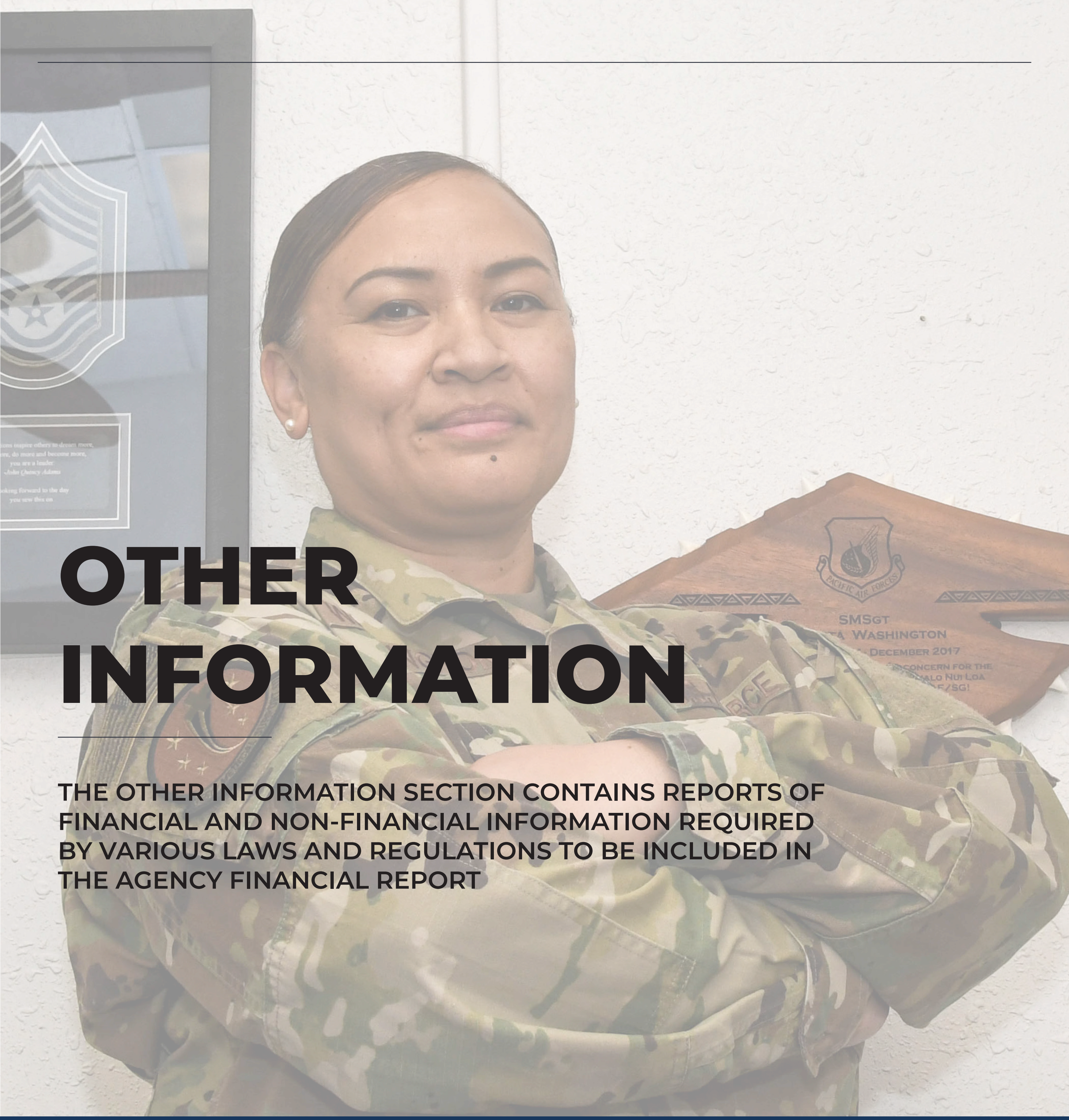
As of September 30 ($ in millions)	2020							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory)	$6,409.6	$79,526.6	$22,460.9	$20,100.2	$-	$33,330.4	$51,453.4	$213,281.1
Appropriations (Discretionary and Mandatory)	154,840.0	139,917.1	108,892.1	16,470.4	72,983.6	8,449.7	412,698.6	914,251.5
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	78,672.5	78,672.5
Spending Authority from Offsetting Collections								
(Discretionary and Mandatory)	2,451.4	3,309.9	23,674.0	6,128.6	-	16,088.4	78,637.3	130,289.6
Total Budgetary Resources	163,701.0	222,753.6	155,027.0	42,699.2	72,983.6	57,868.5	621,461.8	1,336,494.7
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	160,284.6	$169,069.4	$130,604.9	$19,467.5	$72,983.6	$25,612.4	$579,309.9	$1,157,332.3
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	613.4	50,474.9	22,572.3	22,021.8	-	32,217.2	23,914.4	151,814.0
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	30.6	4,179.7	4,210.3
Unapportioned, Unexpired Accounts	-	281.3	52.6	22.2	-	4.3	1,622.5	1,982.9
Unexpired Unobligated Balance, End of Year	613.4	50,756.2	22,624.9	22,044.0	-	32,252.1	29,716.6	158,007.2
Expired Unobligated Balance, End of Year	2,803.0	2,928.0	1,797.2	1,187.7	-	4.0	12,435.3	21,155.2
Unobligated Balance, End of Year (Total)	3,416.4	53,684.2	24,422.1	23,231.7	-	32,256.1	42,151.9	179,162.4
Total Budgetary Resources	163,701.0	$222,753.6	$155,027.0	$42,699.2	$72,983.6	$57,868.5	$621,461.8	$1,336,494.7
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	152,908.6	$138,127.9	$101,638.7	$8,638.8	$72,856.2	$8,438.8	$389,539.6	$872,148.6
Distributed Offsetting Receipts (-)	-	-	3.1	-	(106,351.4)	(805.9)	(1,775.0)	(108,929.2)
Agency Outlays, Net (Discretionary and Mandatory)	$152,908.6	$138,127.9	$101,641.8	$8,638.8	$(33,495.2)	$7,632.9	$387,764.6	$763,219.4

TABLE RSI-4: COMBINING STATEMENT OF BUDGETARY RESOURCES (BUDGETARY)

As of September 30 ($ in millions)	Restated 2019							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget								
Authority, Net (Discretionary and Mandatory)	$8,045.2	$82,446.8	$26,936.2	$18,375.1	$-	$31,327.1	$59,637.7	$226,768.1
Appropriations (Discretionary and Mandatory)	149,383.7	146,873.0	97,348.1	11,354.1	71,409.9	10,954.2	387,055.1	874,378.1
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	86,854.4	86,854.4
Spending Authority from Offsetting Collections								
(Discretionary and Mandatory)	1,604.0	2,859.9	12,491.8	6,463.2	-	14,792.1	74,754.6	112,965.6
Total Budgetary Resources	$159,032.9	$232,179.7	$136,776.1	$36,192.4	$71,409.9	$57,073.4	$608,301.8	$1,300,966.2
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	155,371.6	159,675.6	117,159.1	17,043.3	71,409.9	24,400.7	570,896.0	$1,115,956.2
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	428.8	69,888.6	17,815.5	18,108.2	-	32,687.8	18,209.4	157,138.3
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	43.0	3,997.4	4,040.4
Unapportioned, Unexpired Accounts	-	0.4	1.9	0.4	-	(64.6)	1,190.1	1,128.2
Unexpired Unobligated Balance, End of Year	428.8	69,889.0	17,817.4	18,108.6	-	32,666.2	23,396.9	162,306.9
Expired Unobligated Balance, End of Year	3,232.5	2,615.1	1,799.6	1,040.5	-	6.5	14,008.9	22,703.1
Unobligated Balance, End of Year (Total)	3,661.3	72,504.1	19,617.0	19,149.1	-	32,672.7	37,405.8	185,010.0
Total Budgetary Resources	$159,032.9	$232,179.7	$136,776.1	$36,192.4	$71,409.9	$57,073.4	$608,301.8	$1,300,966.2
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	$148,360.5	$124,324.4	$90,659.1	$7,024.7	$71,160.1	$7,259.3	$379,845.2	$828,633.3
Distributed Offsetting Receipts (-)	-	-	-	-	(104,217.7)	(815.0)	(2,377.4)	(107,410.1)
Agency Outlays, Net (Discretionary and Mandatory)	$148,360.5	$124,324.4	$90,659.1	$7,024.7	$(33,057.6)	$6,444.3	$377,467.8	$721,223.2

TABLE RSI-5: COMBINING STATEMENT OF BUDGETARY RESOURCES (NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNT)

As of September 30 ($ in millions)	2020		2019	
	Operations, Readiness & Support	Combined	Operations, Readiness & Support	Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$59.9	$59.9	$69.0	$69.0
Borrowing Authority (Discretionary and Mandatory)	69.9	69.9	63.3	63.3
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	54.4	54.4	56.8	56.8
Total Budgetary Resources	184.2	184.2	189.1	189.1
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	132.2	132.2	129.2	129.2
Unobligated Balance, End of Year:				
Unapportioned, Unexpired Accounts	52.0	52.0	59.9	59.9
Unexpired Unobligated Balance, End of Year	52.0	52.0	59.9	59.9
Unobligated Balance, End of Year (Total)	52.0	52.0	59.9	59.9
Total Budgetary Resources	184.2	184.2	189.1	189.1
Disbursements, Net				
Disbursements, Net (Total) (Discretionary and Mandatory)	(46.9)	(46.9)	37.6	37.6
Disbursements, Net (Discretionary and Mandatory)	$(46.9)	$(46.9)	$37.6	$37.6



OTHER INFORMATION

THE OTHER INFORMATION SECTION CONTAINS REPORTS OF FINANCIAL AND NON-FINANCIAL INFORMATION REQUIRED BY VARIOUS LAWS AND REGULATIONS TO BE INCLUDED IN THE AGENCY FINANCIAL REPORT

LEADING WITH EXCELLENCE

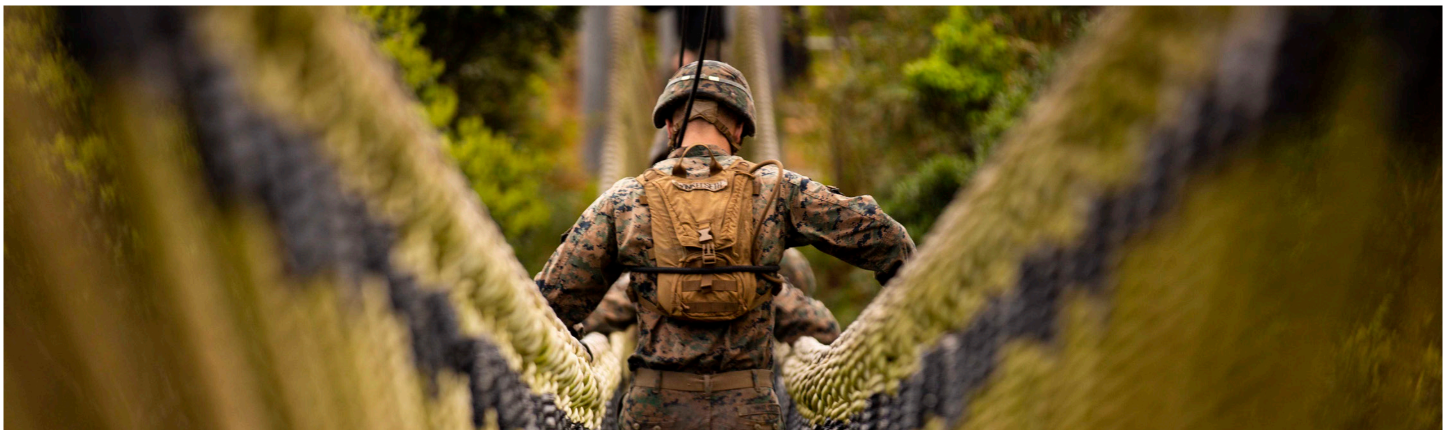
Air Force Chief Master Sgt. Loretta Washington didn't get to where she is today by going easy on anyone — least of all herself.

Washington, the superintendent of the 355th Medical Support Squadron, became a chief master sergeant earlier this year — a rank that is the pinnacle of the enlisted force, attainable by only the top 1%. It takes hard work, superior performance and many years for any airman; for Washington, it's been a long journey in more ways than one.

CLICK HERE FOR A LINK TO THE COMPLETE STORY

MANAGEMENT CHALLENGES

In accordance with the **Reports Consolidation Act of 2000**, the DoD Office of the Inspector General (**DoD OIG**) prepares an annual statement that summarizes what they considers to be the most serious management and performance challenges facing the Department.



U.S. Marines cross a rope bridge during the endurance course at the Jungle Warfare Training Center in Okinawa, Japan, March 20.

Photo credit: Marine Corps Lance Cpl. Jackson Dukes

This statement is included in a larger DoD OIG report that provides additional background and descriptive information about each challenge and provides an assessment of the Department's progress in addressing the challenges.

The DoD OIG uses the Management Challenges report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2021 rather than FY 2020 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2021 Top DoD Management Challenges as well as similar reports from previous years are available at the **DoD OIG website**.

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

October 15, 2020

Each Inspector General (IG) is required by the Reports Consolidation Act of 2000 to prepare an annual statement summarizing what the IG considers to be the "most serious management and performance challenges facing the agency" and to assess the agency's progress in addressing those challenges. According to the law, each "agency head may comment on the IG's statement, but may not modify the statement." The IG's statement must be included in the Agency Financial Report.

The DoD Office of Inspector General (OIG) independently identifies these challenges based on a variety of factors, including our independent research, assessment, and judgment; previous oversight work completed by the DoD OIG and other oversight organizations; congressional hearings and legislation; input from DoD officials; and issues highlighted by the media that are adversely affecting the DoD's ability to accomplish its mission.

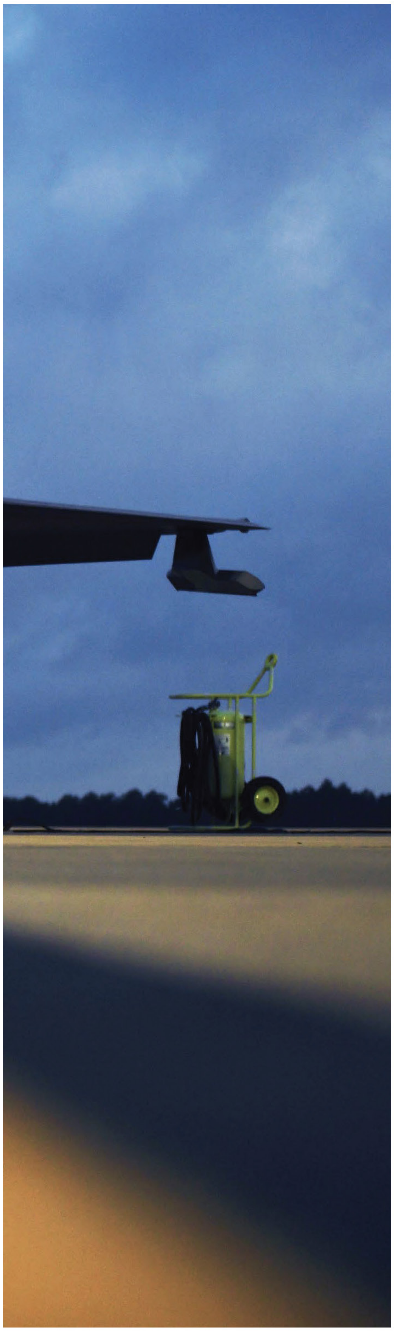
While some of the challenges remain from prior years, the DoD OIG identified three new challenges this year. The new challenges are related to building and sustaining the DoD's technological dominance; non-traditional threats such as pandemics and extreme weather events; and transforming data into information. The remaining challenges have been identified in prior years, and the DoD has been working to resolve or mitigate the challenge areas. We also discuss the recent actions taken by the DoD to address these challenges; cite planned, ongoing, and completed oversight work related to the challenges; and assess the DoD's progress in each challenge area.

This document is forward-looking. The DoD OIG uses this document in its internal oversight planning process, seeking to ensure the DoD OIG's projects address the most significant performance and management challenges. These challenges are not listed in order of importance or by magnitude. All are critically important challenges facing the DoD.

The DoD OIG will continue to assess these challenges and conduct independent oversight to help promote the economy, efficiency, and effectiveness of the DoD; detect and deter fraud, waste, and abuse in DoD programs and operations; and ensure ethical conduct throughout the DoD. We look forward to working with the DoD to help address these important challenges.

Sean W O'Donnell

Sean O'Donnell
Acting Inspector General



Executive Summary

The DoD OIG annually identifies the top management and performance challenges impacting the DoD, based upon solicitation of the DoD's input, reviewing congressional hearings and legislation, assessing oversight work by the U.S. Government Accountability Office and the DoD oversight community, and considering issues raised by media coverage. The DoD OIG also considers the DoD's progress in addressing these challenges. This report provides Congress and the DoD's civilian and military leaders an independent assessment of the management and performance challenges confronting the DoD.

FY 2021 TOP DOD MANAGEMENT CHALLENGES

The FY 2021 Top DoD Management Challenges are:

1. Maintaining the Advantage While Balancing Great Power Competition and Countering Global Terrorism
2. Building and Sustaining the DoD's Technological Dominance
3. Strengthening Resiliency to Non-Traditional Threats
4. Assuring Space Dominance, Nuclear Deterrence, and Ballistic Missile Defense
5. Enhancing Cyberspace Operations and Capabilities and Securing the DoD's Information Systems, Network, and Data
6. Transforming Data Into a Strategic Asset
7. Ensuring Health and Safety of Military Personnel, Retirees, and Their Families
8. Strengthening and Securing the DoD Supply Chain and Defense Industrial Base
9. Improving Financial Management and Budgeting
10. Promoting Ethical Conduct and Decision Making

The challenges are not listed in order of priority, importance, or magnitude. Each challenge is critical to ensuring the DoD meets its mission to provide combat-ready forces to defend the United States.

NEW DOD MANAGEMENT CHALLENGES

This year, the DoD OIG combined and refocused the two challenges from the FY 2020 Management Challenges on countering global terrorism and countering China, Russia, Iran, and North Korea. The DoD OIG added three new challenges focusing on sustaining the DoD's technological dominance through emerging technologies, strengthening the U.S. military's resiliency to non-traditional threats, and transforming data into information.

The first challenge, "Maintaining the Advantage While Balancing Great Power Competition and Countering Global Terrorism," highlights the DoD's challenge of reorienting its priorities and attention to countering China, Russia, Iran, and North Korea after nearly 20 years of focusing on combatting global terrorist organizations. These revisionist powers (China and Russia) and rogue nations (Iran and North Korea) pose different threats than terrorist organizations and require distinct strategies, capabilities, and operations. Maintaining the U.S. military's advantage while balancing great power competition and countering global terrorism requires the DoD to focus on enhancing interagency collaboration and rebuilding military capabilities that may have atrophied the past 20 years.

The second challenge, "Building and Sustaining the DoD's Technological Dominance," focuses on emerging technologies that the DoD and U.S. adversaries are pursuing. Emerging technologies, such as hypersonic weapons, microelectronics, artificial intelligence, 5G communications, and biotechnologies, present both significant opportunities and challenges because each could revolutionize the conduct of war. Autonomous intelligent machines and applications can rapidly accelerate the speed of decision making and action in time-critical operations, improve understanding of the battlespace, and enable new missions that were previously impossible. Rapidly developing, procuring, and deploying these new, innovative technologies will be critical for the DoD to secure and maintain its competitive advantage over adversaries and competitors pursuing the same technologies.

The third challenge, "Strengthening Resiliency to Non-Traditional Threats," recognizes the growing issues involving non-traditional threats, such as pandemics, extreme weather events, and the national security implications of a changing environment. Non-traditional threats impact the U.S. military's infrastructure, readiness, and personnel. Rising sea levels; extreme weather such as flooding, wildfires, or hurricanes; and a melting Arctic will require the DoD to consider the security, readiness, and financial implications of these non-traditional threats. The DoD must also identify how to mitigate the risks and costs to U.S. national security interests, military installations, and personnel.

The sixth challenge, "Transforming Data Into a Strategic Asset," highlights the importance of data and information as a strategic asset. The DoD is awash in data and faces challenges turning data into valuable information for decision makers at all levels within the Department. The DoD has thousands of operational systems, data centers, and servers, millions of computers and devices, and hundreds of thousands of commercial mobile devices. Furthermore, new data is generated in massive volumes and speed in today's world of interconnected devices, with an estimated 2.5 quintillion (or 2.5 billion billion) bytes of data created every day. Collecting, storing, protecting, and analyzing the data is essential for DoD leaders to have the vital information they need to make decisions.

ENDURING DOD MANAGEMENT CHALLENGES

The DoD faces enduring challenges that do not significantly change each year. Several challenges from the FY 2020 Top DoD Management Challenges are enduring, but the OIG merged several challenges. Although several topics within the merged challenges—such as fraud, acquisition reforms, or payments for health care services with limited or no cost controls—are not discussed in this year's challenges, the DoD OIG's oversight and investigative work continues in these areas.

The fourth management challenge, "Assuring Space Dominance, Nuclear Deterrence, and Ballistic Missile Defense," highlights the DoD's challenges of investing in new capabilities in these areas while also sustaining legacy systems to protect U.S. national security interests. Near-peer competitors and rogue nations are investing in their own capabilities to protect their own interests and deter or defeat U.S. capabilities in space, nuclear deterrence, and missile defense. The DoD must balance establishing a new service, the U.S. Space Force, and transitioning personnel, authorities, and programs, while also protecting U.S. space assets and dominance. All three legs of the U.S. nuclear triad are rapidly approaching the end of their planned service lives, forcing the DoD to modernize aging systems without sacrificing existing capabilities. Finally, adversaries and rogue nations continue to develop their own missile capabilities, requiring the DoD to modernize its ballistic missile defense to meet current and emerging threats while balancing combatant commands' missile defense requirements. Investing in and modernizing the U.S. Space Force, the nuclear triad, and missile defense are critical challenges for the DoD to effectively counter the threats posed by adversaries and rogue nations.

The fifth challenge, "Enhancing Cyberspace Operations and Capabilities and Securing the DoD's Information Systems, Network, and Data," focuses on the critical role of cyberspace in supporting DoD business and military operations. The DoD continues to face sophisticated and evolving cyber attacks. DoD adversaries are constantly attempting to exploit cybersecurity vulnerabilities to gain unauthorized access to systems and networks and use sensitive and classified information to collect intelligence, target DoD critical infrastructures, manipulate information, and conduct cyber attacks. The DoD must continue to deploy and use cutting-edge technology to maintain its military and tactical advantage.

The seventh management challenge, "Ensuring Health and Safety of Military Personnel, Retirees, and Their Families," highlights one of the Secretary of Defense's top priorities. The DoD OIG merged two FY 2020 management challenges related to the welfare and well-being of service members and their families and military health care. The DoD is responsible for the mental and physical well-being of service members. To adequately treat, protect, and provide for its personnel, the DoD must carefully implement Military Health System reform and ensure that electronic health records are properly deployed and protected. In addition, behavioral health issues such as substance abuse and suicide prevention are key health and safety challenges for the DoD. Finally, environmental health and military housing have also been serious concerns for the DoD in protecting its personnel.

The eighth management challenge, "Strengthening and Securing the DoD Supply Chain and Defense Industrial Base," addresses the enduring challenges of sustaining weapons and systems. The supply chain is how the DoD provides the Military Services with the

EXECUTIVE SUMMARY

supplies they need at the right place and time. The Defense Industrial Base provides the DoD with supplies ranging from meals ready-to-eat to tanks and missiles. The enduring challenges within the supply chain and Defense Industrial Base include limited sources of supply in the United States. A limited number of suppliers can lead to decreased readiness, sustainment, and security; reliance on foreign suppliers; delays in repairing equipment and systems; and potentially higher prices paid due to a lack of competition. However, changes in contract and acquisition policy and the use of alternative methods of manufacturing over the past few years have aimed to mitigate these enduring challenges. This challenge incorporates two FY 2020 management challenges, which focused on acquisition and contract management and on supply chain management and security.

The ninth management challenge, "Improving Financial Management and Budgeting," addresses the longstanding financial management challenges that continue to impair the DoD's ability to provide reliable, timely, and useful financial and managerial information to support reported financial statement balances. Additionally, the lack of reliable financial information impacts the DoD's operating, budgeting, and management decision making. One of the DoD's strategic objectives is to "improve the quality of budgetary and financial information that is most valuable in managing the DoD." Maintaining and using reliable, consistent, and timely enterprise data to support leadership decision making is of paramount importance.

U.S. Marines with 3rd Reconnaissance Battalion, 3rd Marine Division, patrol through water during a Marine Corps Combat Diving Supervisors Course on Camp Schwab, Okinawa, Japan, May 20, 2020. (U.S. Marine Corps photo)

The tenth management challenge, “Promoting Ethical Conduct and Decision Making,” focuses on the critical issue of ethics within the DoD. The Secretary of Defense’s August 2019 memo to all military personnel and DoD employees stated that the DoD enjoys the highest trust and confidence of the American people “because we live by core values grounded in duty and honor that influence how we think and act. The decisions we make every day reaffirm our commitment to ethical conduct—doing what is right, without hesitation.” Ethics builds principled, self-disciplined teams; strengthens alliances and builds new ones; and is fundamental to business reforms. For example, the DoD has proactively issued a set of ethical principles for using artificial intelligence. However, in other areas, the DoD continues to address sexual assault in the military, sexual harassment in the DoD, and culture and accountability issues. The vigilance required to safeguard ethical conduct is rewarded by Americans’ continuing trust and confidence in the DoD.

Finally, the DoD OIG recognizes the challenge of building a 21st century workforce. Although this issue is not a standalone challenge, several management challenges acknowledge the importance of recruiting, training, and retaining a modern workforce, specifically the management challenge regarding cyberspace, data, and information, and the challenge regarding financial management and budgeting. The issues of diversity and inclusion within the DoD workforce are critical to ensuring the DoD develops and retains the best workforce to meet the challenges laid out in this document and successfully executes its mission defending the United States.

The DoD considers these 10 challenges to be the most critical issues facing the DoD. The DoD OIG will use these challenges to provide the strategic guidance and inform its work in the next fiscal year, as outlined in the DoD OIG FY 2021 Oversight Plan.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

DoD management has a fundamental responsibility to develop and maintain effective internal controls to provide assurance that its programs operate, and federal resources are used, efficiently and effectively to achieve the DoD mission.

Five members from the Space and Missile Systems Center at Los Angeles Air Force Base, California, participate in a ceremonial swearing-in event, September. 15, 2020.

PHOTO CREDIT: Space Force Van Ha

As discussed in the Management's Discussion and Analysis section, managers throughout the Department are accountable for ensuring effective internal controls in their areas of responsibility. All DoD Components are required to establish and assess internal controls over financial reporting, mission-essential operations, and financial management systems.

Management-identified weaknesses are determined by assessing internal controls, as required by the Federal Managers' Financial Integrity Act of 1982 (**FMFIA**), the Federal Financial Management Improvement Act of 1996 (**FFMIA**), and Office of Management and Budget (OMB) **Circular No. A-123**, and fall into one of the following categories:

- FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting;
- FMFIA Section 2, Effectiveness of Internal Control over Operations; or
- FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements / FFMIA Section 803(a), Implementation of Federal Financial Management Improvements.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Exhibit 1 lists the 26 areas of material weaknesses in the Department's financial statement reporting as identified by the DoD OIG in the Independent Auditor's Report. The material weakness areas identified by the DoD OIG in the Independent Auditor's Report are consistent with those identified by DoD management (which are primarily identified using the assessable unit categories as defined by the DoD Risk Management and Internal Control program) with one exception: Military Housing Privatization Initiative (**MHPI**). The Department concurs with the DoD OIG's conclusions, with the exception of MHPI, and will focus on implementing the necessary corrective actions to address the material weaknesses noted by the DoD OIG in the Independent Auditor's Report.

MILITARY HOUSING PRIVATIZATION INITIATIVE

The Department does not concur with the DoD OIG's conclusions with respect to MHPI. Management acknowledges the existence of deficiencies in the recording and disclosure of MHPI financial activities; however, does not determine the scope of financial activities to be quantitatively material to the Department-wide consolidated statements. The Department is continuing efforts to properly record and disclose the financial activities of the MHPI program in accordance with the requirements of Generally Accepted Accounting Principles (GAAP). We will work with standard setting bodies, and the OIG, to resolve the differences.

Soldiers from the United Kingdom's 28th Squadron stack along a wall in preparation for breaching a simulated enemy compound during Noble Partner 20 on Vaziani Training Area, Georgia Sept. 13, 2020.

PHOTO CREDIT: Army Spc. Isaiah Matthews

EXHIBIT 1: SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Disclaimer ***Restatement: No***					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Financial Management Systems and Information Technology[1]	1			(1)	0
Legacy Systems[2]	0	1			1
Configuration Management and Security Management[2]	0	1			1
Access Controls[2]	0	1			1
Segregation Duties[2]	0	1			1
Universe of Transactions[2]	1				1
Fund Balance with Treasury	1				1
Suspense Accounts[3]	1				1
Inventory and Related Property	1				1
Operating Materials & Supplies	1				1
General Property, Plant, and Equipment	1				1
Real Property	1				1
Government Property in Possession of Contractors[4]	1				1
Joint Strike Fighter Program	1				1
Military Housing Privatization Initiative	1				1
Accounts Payable[5]	1				1
Environmental and Disposal Liabilities	1				1
Legal Contingencies[6]	1		(1)		0
Beginning Balances[7]	1				1
Unsupported Accounting Adjustments[7]	1				1
Intradepartmental Eliminations and Intragovernmental Transactions[8]	1				1
Gross Costs[7]	1				1
Earned Revenue[7]	1				1
Reconciliation of Net Cost of Operations to Outlays[6]	1		(1)		0
Budgetary Resources[3]	1				1
Service Providers[7]	1				1
Entity Level Controls	1				1
DoD-wide Oversight and Monitoring[9]	1				1
Component Level Oversight and Monitoring[9]	1				1
Total Material Weaknesses	**25**	**4**	**(2)**	**(1)**	**26**

EXHIBIT 1: FOOTNOTES

1 The Financial Management Systems and Information Technology material weakness reported by the DoD OIG in FY 2019 was disaggregated, and is reported as four separate material weaknesses in FY 2020: Legacy Systems, Configuration Management and Security Management, Access Controls, and Segregation of Duties.

2 The Legacy Systems, Configuration Management and Security Management, Access Controls, Segregation of Duties and Universe of Transactions material weaknesses identified by the DoD OIG are included within the FISCAM material weaknesses identified by DoD management in Exhibit 6.

3 The Suspense Accounts and Budgetary Resources material weaknesses identified by the DoD OIG are included within the Fund Balance with Treasury material weaknesses identified by DoD management in Exhibit 2.

4 The Government Property in Possession of Contractors material weakness identified by the DoD OIG is included within the Accountability and Management of Property Furnished to Contractors for the Performance of a Contract material weakness identified by DoD management in Exhibit 2.

5 The Accounts Payable material weakness identified by the DoD OIG is included within the Health Care Liabilities and Contract/Vendor Pay material weaknesses identified by DoD management in Exhibit 2.

6 The Legal Contingencies and Reconciliation of Net Cost of Operations to Outlays material weaknesses identified by the DoD OIG in FY 2019 were downgraded to significant deficiencies in FY 2020 as a result of corrective actions implemented.

7 The Beginning Balances, Unsupported Accounting Adjustments, Gross Costs, Earned Revenue, and Service Providers material weaknesses identified by the DoD OIG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

8 The Intradepartmental Eliminations and Intragovernmental Transactions material weaknesses identified by the DoD OIG are included within the Reimbursable Work Orders material weakness identified by DoD management in Exhibit 2.

9 The DoD-wide Oversight and Monitoring and Component Level Oversight and Monitoring material weaknesses identified by the DoD OIG are included within the Entity Level Controls material weakness identified by DoD management in Exhibit 2.

Then Senior Master Sgt. Michael Rozneck, learns he earned the rank of chief master sergeant March 4, 2020, at Schriever Air Force Base, Colorado.

PHOTO CREDIT: Air Force Dennis Rogers

SUMMARY OF MANAGEMENT ASSURANCES

FMFIA SECTION 2, EFFECTIVENESS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

Exhibit 2 lists the FY 2020 material weaknesses in internal controls over financial reporting, captured by end-to-end process and assessable unit, and reports the changes from the material weaknesses disclosed in the DoD Agency Financial Report (AFR) for FY 2019.

EXHIBIT 2. FY 2020 EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA §2)

Statement of Assurance: No Assurance							
End-to-End Process	**Area of Material Weakness**	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Budget-to-Report	Entity Level Controls	1					1
	Fund Balance with Treasury (FBWT) [1]	3			(1)		2
	Financial Reporting Compilation	6					6
Hire-to-Retire	Health Care Liabilities	1					1
	Military Pay [2]	3				(3)	0
Procure-to-Pay	Contract/Vendor Pay	8					8
	Reimbursable Work Orders	3					3
Acquire-to-Retire	Equipment Assets	2					2
	Joint Strike Fighter Program	0	1				1
	Real Property Assets [1]	2			(1)		1
	Environmental Liabilities	1					1
	Accountability and Management of Property Furnished to Contractors for the Performance of a Contract	1					1
	Internal Use Software (IUS)	1					1
Plan-to-Stock	Inventory	4					4
	Operating Materials & Supplies (OM&S) [1]	5			(1)		4
Total Material Weakness		**41**	**1**	**0**	**(3)**	**(3)**	**36**

EXHIBIT 2: FOOTNOTES

1 In FY 2020, two material weaknesses that were separately reported in FY 2019 were consolidated into a single reportable material weakness.

2 In FY 2020, the Military Pay material weaknesses reported in FY 2019 were reassessed to no longer meet materiality and risk thresholds for designation as Agency-wide material weaknesses.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS

ENTITY LEVEL CONTROLS

Department-wide; Identified FY 2019; Correction Target FY 2021

Material Weaknesses

- Multiple DoD Components do not have sufficient Entity Level Controls (ELCs) to establish an internal control system that will produce reliable financial reporting. The lack of sufficient controls at the Component level increases the risk of material misstatement on both the Components' financial statements and Agency-wide financial statements.

Corrective Actions

- Use the revised ELC template developed by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) to capture the controls in place for monitoring ELCs. Conduct Component-level annual evaluations of ELCs to analyze high-risk areas and develop mitigation and corrective action efforts.

Marine Corps Cpl. Stephanie Mata looks for simulated improvised explosive devices during a field exercise at Camp Villere in Slidell, La., March 12, 2020.

PHOTO CREDIT: Marine Corps Lance Cpl. Leslie Alcaraz

FUND BALANCE WITH TREASURY

Department-wide; Identified FY 2005; Correction Target FY 2022 **(see note)**

Material Weaknesses

- Ineffective processes and controls to support the reconciliation of transactions posted to the Department's FBwT accounts with the Department of the Treasury's records, timely research and resolve FBwT differences, and provide sufficient and accurate documentation to support FBwT transactions and reconciling items.
- Ineffective controls to properly attribute suspense account transactions to the appropriate DoD Component and research and resolve suspense account transactions in accordance with Treasury Financial Manual requirements.

Corrective Actions

- Track and reconcile collection/disbursement activity from the core financial systems and associated feeder systems to the Department's general ledgers and to Treasury accounts and expedite transition to Treasury Direct Disbursing.
- Develop an auditable FBwT reconciliation process, to include processes and controls to timely retrieve supporting documentation and resolve reconciling differences that include suspense account balances. Ensuring disbursing officers' accountability differences are accurate, immaterial, documented, and resolved in a timely manner.
- Support Budgetary and Proprietary FBwT Beginning Balances by performing aging analysis and apply reconciliation backwards to at least FY 2013.
- Achieve unmodified opinions on Statement on Standards for Attestation Engagements (SSAE) 18 examinations of service provider Controls over Fund Balance with Treasury – Transaction Distribution, which includes Defense Cash Accountability Systems.
- Continue to retire and replace legacy systems and processes; expedite transition to Treasury Direct Disbursing and daily reporting.
- Continue the development of viable FBwT reconciliation tools.

Note: The Correction Target date was adjusted from FY 2023 to FY 2022. Significant progress was recognized in the reconciliation of unreconciled transactions, which will result in an accelerated remediation of the noted Material Weaknesses.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

FINANCIAL REPORTING COMPILATION

Department-wide; Identified FY 2005; Correction Target FY 2028 **(see note)**

Material Weaknesses

- Inability to provide historical data to support completeness and accuracy of beginning balances on the financial statements or reconcile beginning balances to closing balances at the end of the previous reporting period.
- Ineffective controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems.
- Inadequate procedures and controls for recording gross cost and earned revenue on the Statement of Net Cost, or providing gross and net cost information related to program or organizational outputs and outcomes.
- Unable to adequately research and resolve variances between budgetary and proprietary data throughout the reporting period and inability to provide details required to resolve this reconciling difference.
- The Budgetary Resources balances presented on the DoD Components' Statement of Budgetary Resources may not be complete, accurate, or supported.
- Service Providers have not designed or implemented reliable controls that provide the required assurance to their DoD Component customers, which decreases the reliability and accuracy of the DoD Component-level financial statements used to compile the Agency-wide financial statements.

Corrective Actions

- Continue implementing and improving processes related to the use of the Statement of Federal Financial Accounting Standards (SFFAS) 48 and SFFAS 50 "deemed cost" methodologies to establish opening balances for Inventory & Related Property and General Property Plant & Equipment. Develop and implement internal controls to provide assurance that adequate supporting documentation is developed and maintained to substantiate related financial statement balances and line items.
- Retire and replace legacy, non-Generally Accepted Accounting Principles (GAAP) compliant financial systems; perform reconciliations from feeder systems to the general ledgers; and analyze posting logic

Corrective Actions (Continued)

within accounting systems to validate that account balances, budgetary to proprietary relationships, and transactions meet United States Standard General Ledger requirements.

- Perform risk assessment procedures over financial reporting controls of cost and revenue recognition, to include management review and validation of accrual estimation methodologies. Work with stakeholders to define and assign costs to major programs.
- Establish guidelines for reconciliation of net cost to net outlays and develop methodologies and training to identify and correct the root causes of the budgetary to proprietary and tie-point account relationship differences.
- Develop an approach to review budget execution business processes and associated financial reporting risks. Implement policies, procedures, and internal controls to support the maintenance and timely retrieval of supporting documentation, and substantiate that reported balances comply with applicable laws, standards, and regulations. Develop an approach for performing reconciliations and retaining data for sensitive activities.
- Design and implement monitoring and oversight controls over service providers' financial reporting processes. Work with service providers to conduct risk assessments of internal controls intended to verify proper definition of process ownership and compliance with internal control guidance and accounting standards. Require relevant service providers to post corrections in a timely manner.

Note: The Correction Target date was adjusted from FY 2024 to FY 2028. The change in Correction Target is due to additional time required for financial system implementations across numerous Components.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

HEALTH CARE LIABILITIES

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

- The Military Treatment Facilities (MTFs) do not have compliant, transaction-based accounting systems that apply common and consistent business rules in a manner envisioned by the Department's planned Standard Financial Information Structure. There is insufficient evidence that adequate controls exist and have been implemented to ensure the timeliness and accuracy of medical coding processes at MTFs. The MTF-level data is based on budget execution processes, rather than accrual-based accounting. There is insufficient evidence that appropriate and consistent cutoff of accounting activity occurs at the MTF level.

Corrective Actions

- Complete the implementation of new Enterprise Resource Planning core financial systems for each Military Service to record accrual-based, patient-level cost accounting data.
- Deploy a new billing solution, deploy an automated coding solution, and develop processes to facilitate the creation of itemized bills for all patients receiving direct care within the Military Health System. This new "Electronic Health Record" will assist with the accurate reporting of health care activities and support the establishment of an audit trail.

Navy Cmdr. Mary Gracia checks the ears of five-year-old Gabriella at the Naval Branch Health Clinic Mayport, Fla., September 18, 2020.

PHOTO CREDIT: Jacob Sippel, Navy

CONTRACT/VENDOR PAY

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

- Lack of standard data structure governing purchase request format prevents traceability and use of electronic transactions from initiation of funding through contract execution.
- Funding may not be accurately recorded or available in the relevant accounting system at the time of contract award.
- Lack of standard processes for recording contract obligations electronically in financial systems.
- Insufficient policies governing the recording of accruals related to contracts.
- Inability to reconcile contract data to financial data. Unable to reconcile buyer and seller intragovernmental and intergovernmental transactions.
- Improper payments may result from incorrect payment request type or from assignment of contracts to entitlement systems that do not have procedures for the financing payments or payment of cost vouchers on cost type contracts.
- Current systems environment does not enable match of award to accounting data for public transparency, (e.g., Digital Accountability and Transparency Act (DATA Act).
- Lack of timely contract closeout and de-obligation of funds limits the Department's access to capital.

Corrective Actions

- Publish a DoD Instruction setting policies, procedures, and data standards for purchase requests.
- Implement an automated pre-award funds validation standard operating procedure to confirm funds have been accurately recorded and are available prior to award, and that accounting systems can accurately record proposed contract award structure.
- Implement the use of applicable measures for all accounting and entitlement systems to track progress toward recording contract obligation compliance with standard procedures.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

CONTRACT/VENDOR PAY (CONTINUED)

Corrective Actions (Continued)

- Expand the use of accrual recording based on Wide Area Workflow acceptance data to additional accounting systems. Implement standard operating procedures for electronic receipt, acceptance, and processing of requests for payment.
- Develop policies, procedures, and data standards for electronic intergovernmental/intragovernmental transactions. Pilot capability to obtain contract source data that can be accurately matched to recorded accounting data for public posting.
- Establish entitlement system assignment rules based on payment type; research additional causes of payment problems to identify corrective actions and opportunities for process improvements.
- Designed and implementing standard processes and controls to ensure contract data can be accurately matched to recorded accounting data for public posting (i.e. DATA Act).
- Developing department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur to return available funds back to programs in a timely manner.

REIMBURSABLE WORK ORDERS

Department-wide; Identified FY 2011; Correction Target FY 2026 **(see note)**

Material Weaknesses

- Lack of evidence of performance, acknowledgement of receipt of intragovernmental goods and services, and validity of open obligations.
- Inability to verify the timely and accurate collection of disbursements and validate recorded reimbursable agreements meet the time, purpose, and amount criteria.
- Ineffective process to collect, exchange, and reconcile buyer and seller intragovernmental transactions.

Corrective Actions

- Continue to perform Component-level gap analyses on key processes, develop and enter General Terms and Conditions (GT&Cs) agreements in the Department of the Treasury's G-Invoicing system, participate in G-Invoicing training, and develop functionalities in accordance with Federal and DoD data standards.
- Design and implement accounting interfaces in alignment with Treasury's G-Invoicing release mandated timeline.
    - Timeline for processing new orders: Period of Performance beginning October 1, 2022 and beyond
    - Timeline for existing orders: Period of Performance extending beyond Sept. 30, 2023
- Develop and document authorization procedures and controls over obligations. Develop compensating controls to ensure obligations are properly authorized in instances where system authorizations cannot be relied upon.

Note: The Correction Target date was adjusted from FY 2022 to FY 2026. The change in Correction Target date is due to the updated timeline for implementing G-Invoicing as mandated for all federal agencies. The extended timeline for FY 2026 incorporates the full implementation of all Reimbursable Buy/Sell transactions that are not part of the current requirements of the G-invoicing solution, such as Interfund Billings.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

EQUIPMENT ASSETS

Department-wide; Identified FY 2006; Correction Target FY 2022

Material Weaknesses

- Processes and controls to account for the quantity and value of military and general equipment are not effective.
- Insufficient internal controls and supporting documentation requirements to ensure timely recording, relief, and accuracy of Construction in Progress (CIP).

Corrective Actions

- Continue to promote usage of alternative inventory methods to meet equipment inventory requirements while minimizing the burden of physical site visits.
- Continue to convene quarterly General Equipment (GE) Working Group meetings to highlight policy and guidance gaps impacting the valuation of GE, report on quarterly progress in establishing accountable records, and share lessons learned.
- Leverage Component-led property accountability workshops to promote sound accountability practices and provide opportunities for collaboration across Components.
- Develop standard data elements and reporting metrics to standardize equipment accountability.

JOINT STRIKE FIGHTER PROGRAM

Department-wide; Identified FY 2019; Correction Target FY 2022

Material Weaknesses

- Joint Strike Fighter (JSF) program property are not accounted for, managed, or recorded in an accountable property system of record (APSR). As a result, JSF property is not properly reflected in the DoD financial statements. Additionally, the Department relies on contractor records to value JSF property. These contractor records indicate that the JSF program contains over 3.45 million pieces of property valued at $2.1 billion.

Corrective Actions

- Complete an initial trial balance by recording all JSF property within an APSR via manual process journal vouchers.

REAL PROPERTY ASSETS

Department-wide; Identified FY 2000; Correction Target FY 2025 **(see note)**

Material Weaknesses

- Real property processes, controls and supporting documentation do not substantiate that all assets are:
  - Properly valued,
  - Supported by documentation that is available and substantiates rights and obligations,
  - Recorded timely and accurately (including relief and reporting of CIP and real property improvements), and
  - Appropriately presented and consistently reported in the financial statements.

Corrective Actions

- Implement a lifecycle process for regular reconciliation of CIP and the financial statements.
- Deploy new APSR and confirm adequate APSR-level data and documentation is available to support valuation of real property assets, including CIP.
- Ensure adequate documentation is available to support rights and obligations for financial statement reporting for owned real property and real property use agreements, outlining roles and responsibilities of Installation Hosts owners and tenant organizations.
- Validate data used in the calculation of Plant Replacement Value for alternative valuation of real property assets in accordance with SFFAS 50.

Note: The Correction Target date was adjusted from FY 2021 to FY 2025. The change in Correction Target is due to the delay in the full deployment of a new APSR for one of the key contributing Components.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

ENVIRONMENTAL LIABILITIES

Department-wide; Identified FY 2019; Correction Target FY 2025 **(see note)**

Material Weaknesses

- The Department is unable to develop accurate estimates and account for Environmental Liabilities (EL) in accordance with generally accepted accounting procedures due to the following issues:
  - The Department-wide Real Property material weakness does not allow a full and accurate accounting of real property asset-driven EL outside of the Defense Environmental Restoration Program.
  - Existence and Completeness issues with the General Equipment inventories does not allow a full and accurate accounting of equipment asset-driven EL.
  - Insufficient formal policy, procedures, and supporting documentation exist for developing and supporting cost estimates.

Corrective Actions

- Continue to convene the Environmental and Disposal Liability (E&DL) Working Groups to highlight policy and guidance gaps impacting the valuation of E&DL, report on quarterly progress, and share lessons learned.
- Identify policy gaps and develop DoD-wide E&DL Calculation Methodology and Model.
- Track progress of Real Property and General Equipment physical inventories to ensure that E&DL is also being reported appropriately
- Develop and monitor reporting metrics toward completion. Report progress through working groups, Property Functional Councils, and the FIAR Governance Board

Note: The Correction Target date was adjusted from FY 2021 to FY 2025. The change in Correction Target is due to the delay in the implementation and adoption of a Environmental Liabilities calculation model.

ACCOUNTABILITY & MANAGEMENT OF PROPERTY FURNISHED TO CONTRACTORS FOR THE PERFORMANCE OF A CONTRACT

Department-wide; Identified FY 2011; Correction Target FY 2026 **(see note)**

Material Weaknesses

- Government property in the possession of contractors cannot be identified in the Department's property and financial systems. As a result, the Department's financial and accountability records are incomplete.

Corrective Actions

- Develop and implement policy supporting reporting and accountability of Government Furnished Property (GFP)
- Develop and implement automated solutions for reporting GFP
- Review metrics such as GFP contract clause compliance, assertion packages, and APSR compliance with DoD policy using electronic transactions for each Component and provide analysis of progress towards accountability.
- Continue to hold GFP Working Group meetings

Note: The Correction Target date was adjusted from FY 2021 to FY 2026. The change in Correction Target is due to delays in the implementation and adoption of automated GFP reporting solutions.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

INTERNAL USE SOFTWARE

Department-wide; Identified FY 2015; Correction Target FY 2024 **(see note)**

Material Weaknesses

- The Department has not properly addressed the management and financial reporting of Internal Use Software (IUS), which is required by Statement of Federal Financial Accounting Standards (SFFAS) 10 and must be addressed through updated guidance in the Financial Management Regulation (FMR).

Corrective Actions

- Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance with GAAP.
- Develop and implement processes and system changes to APSRs to properly capture and sustain proper accountability and accounting of IUS.
- Continue to deploy the Defense Property Accountability System as the APSR solution for IUS.
- Evaluate Department-wide compliance for IUS APSR requirements to drive IUS APSR requirement and policy changes.
- Continue to convene the IUS working group to highlight policy and guidance gaps impacting the accountability and accounting of IUS, report on progress in establishing IUS accountable records and implementing sustainable processes for IUS, and share lessons learned.
- Validate corrective actions in conjunction with the DoD Chief Information Officer (CIO) through results of stand-alone audits, Agency-wide audit, Component Statements of Assurance, and information presented by Components at IUS working group.
- Continue to promote use of SFFAS 50 allowances for opening balance of IUS.
- Evaluate planned changes from the Federal Accounting Standards Advisory Board (FASAB) on accounting for software, software licenses, and other intangible assets for potential accountability and accounting policy changes.

Note: The Correction Target date was adjusted from FY 2023 to FY 2024. The change in the Correction Target is due to a delay in implementing corrective actions.

INVENTORY

Department-wide; Identified FY 2005; Correction Target FY 2026 **(see note)**

Material Weaknesses

- Inadequate policies and procedures over timely reconciliation of subsidiary ledgers and proper application of inventory costing methodologies.
- Lack of internal controls to support management's assertion of existence and completeness of Inventory; prevent users from posting transactions that exceed their approved thresholds, to review and follow-up of inventory and to review interface transmission errors; and ensure transactions are recorded in the proper period for existence, completeness, and valuation.
- Insufficient evidential matter to support inventory transactions, inventory held by third parties, and the complete and accurate identification and correction of erroneous transactions.
- Insufficient documentation to ensure updated business process control measures completely reflect all sub-processes within inventory.

Corrective Actions

- Implement revised policy on comingled assets; address process and system deficiencies associated with reconciliations and valuation methodologies.
- Use the Risk Management and Internal Control Program to guide the development and update of internal controls related to inventory accrual, existence, completeness, and valuation of inventory. Implement policy changes to support long-term courses of action to mitigate inventory weaknesses.
- Issue policy on asset physical accountability requiring internal controls and annual physical inventories. Design and improve reports, management oversight, and procedures to improve effectiveness of management controls.
- Review, improve, and implement enhanced controls in the inventory processes and perform follow up testing for compliance and effectiveness.

Note: The Correction Target date was adjusted from FY 2023 to FY 2026. The change in Correction Target is due to delays in the implementation of required policies.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

OPERATING MATERIALS & SUPPLIES (OM&S)

Department-wide; Identified FY 2005; Correction Target FY 2027 **(see note)**

Material Weaknesses

- The Department does not report OM&S in the Inventory & Related Property line on the Balance Sheet in accordance with SFFAS 3 or SFFAS 48.
- The Department has not performed an annual assessment of OM&S acquired by Components for the purposes of determining appropriate accounting treatment under SFFAS 3, to include existence and completeness.
- Inadequate processes and controls for accurately recording munitions inventories.
- DoD Components do not have sufficient controls and procedures addressing OM&S assets in the possession of third parties, to include service providers and contractors.

Corrective Actions

- Implement an appropriate valuation method for OM&S. Develop and implement procedures to document the process to determine when a decline in value should be considered temporary or permanent. Review all posting logic, re-evaluate existing policies, and develop and implement controls to ensure property account posting logic and will establish a methodology to support valuation of OM&S.
- Issue DoD policy require inventory of OM&S. Conduct inventories in accordance with existing policies and supplement existing policies upon finalization of the DoD policy for inventories. Develop Component-level risk control matrices based on inventory controls gap analyses to implement changes to the inventory process. Report metrics on physical inventories of OM&S, inventory adjustments, and OM&S in the possession of third parties for use in governance meetings.
- Develop solutions for a new Munition Control System that accurately handles physical custody and control issues, properly performs the correct accounting for all munitions, and facilitates the implementation of internal controls to provide improved management oversight. Modernize current systems to better manage and perform munitions control prior to the implementation of the new Munition Control System solutions.
- Continue efforts to validate existence, completeness, accuracy, and ownership of all assets; monitor interfaces of the different systems; and design, develop, and implement better reconciliation processes to address OM&S held by service providers and contractors. All Contractor Inventory Control Point programs will be identified and controls developed to maintain OM&S along with policies and procedures for oversight. Require future contracts which provide OM&S to third parties to perform existence and completeness reporting, controls, and testing.

Note: The Correction Target date was adjusted from FY 2024 to FY 2027. The change in Correction Target is due to delays in the implementation dates for key contributing Components.

FMFIA SECTION 2, EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS

Exhibit 4 lists the FY 2020 material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2019.

EXHIBIT 4. FY 2020 EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA §2)

Statement of Assurance: Modified Assurance						
Assessable Unit	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Acquisition	3					3
Comptroller and/or Resource Management	1					1
Communication	1					1
Contract Administration	1					1
Information Technology	3					3
Force Readiness	1					1
Manufacturing, Maintenance, and Repair	1					1
Personnel and/or Organizational Management	5					5
Support Services	2					2
Supply Operations	2					2
Total Material Weakness	**20**	**0**	**0**	**0**	**0**	**20**

Several ships break away from formation during Exercise Valiant Shield in the Philippine Sea, September 25, 2020.

PHOTO CREDIT: Navy Seaman Apprentice Oswald Felix Jr.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS

ACQUISITION

Department-wide; Identified FY 2011; Correction Target Reassessed Annually **(see note)**

Material Weaknesses

- Many DoD acquisition programs fall short of cost, schedule, and performance expectations resulting in unanticipated cost overruns, reduced buying power, and/or in some cases resulting in a delay or reduction in the capability ultimately delivered to the warfighter.
- Lack of sufficient program management capabilities, as mandated by the DoD 5000 series of issuances.
  - Acquisition lifestyle oversight, policies, regulations and organizational structure is non-compliant.
  - Lack of effective process to support mission by identifying, assessing, and providing oversight of development and procurement solutions.
  - Inadequate documentation and filing of acquisition records.
- Non-compliance with the Clinger-Cohen Act, 10 USC §2222, DoDI 5000.74, and DoDI 5000.75; insufficient management and oversight of IT services and Defense Business Systems; Inadequate use of existing controls for generating, monitoring, and closing contracts.

Corrective Actions

- Implement DoD 5000 series policy mandates and guidance to properly align acquisition with the DoD Mission and needs, which reduces risk and impacts to cost, schedule, and performance.
- Continue to improve implementation of Better Buying Power 3.0 and clarify/update DoD Instruction 5000.02.
- Develop and implement a Procedural Instruction for Acquisition Approval and Governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review acquisition programs, and improve the monitoring and forecasting of potential issues or risk areas.
- Conduct Systems Reviews, Capability Portfolio Reviews, Configuration Steering Boards, and Cost Reviews to identify process inefficiencies and improve the acquisition management process.
- Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule, and performance variances, and to address reported variances.

Corrective Actions (Continued)

- Establish a system of tracking to report acquisition program performance and highlight variances.
- Publish updated Investment Management Guidance with business capability review instructions and schedule.
- Publish the Defense Business Operations Management Strategic Plan addressing investment management, portfolio management, business architecture, and information technology modernization strategies.
- Establish portfolios, develop capability strategies for each portfolio, and conduct portfolio reviews following implementation.
- Identify and pursue initial optimization opportunities for review by the Defense Enterprise Business Operations Senior Steering Group, Defense Business Council, and Reform Management Group.
- Complete review of the Defense Acquisition Workforce Improvement Act (DAWIA) acquisition certification required positions to ensure the acquisition workforce is sufficiently trained in implementing Clinger-Cohen Act, 10 USC §2222, DoDI 5000.74, and DoDI 5000.75 requirements. Establish a training plan and staff DAWIA positions with certified employees.

Note: The Correction Target date was adjusted from FY 2021 to Reassessed Annually. The change in Correction Target is based on the fact that the scope of the remediation efforts increased and management is continuing to evaluate progress and the projected completion timeframe.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

COMPTROLLER AND/OR RESOURCE MANAGEMENT

Department-wide; Identified FY 2013; Correction Target FY 2021

Material Weaknesses

- Ineffective internal controls and management oversight for processes such as management of improper payments, use of Internal Use Software, and property furnished to contractors.

Corrective Actions

- Brief leadership; appoint and train staff; develop risk profiles; conduct initial, quarterly, and annual validation and assessment; and automate processes as appropriate.

COMMUNICATIONS

Department of the Air Force; Identified FY 2018; Correction Target FY 2023

Material Weaknesses

- The Department of the Air Force has identified a systemic issue in communication of security information between installations and appropriate external entities.

Corrective Actions

- Identify digital fingerprinting hardware and software solutions to improve archiving, enhance ability to reference/verify fingerprinting, and facilitate transfer of fingerprints between U.S. law enforcement agencies.
- Identify best practices used by U.S. law enforcement entities.
- Replace the Security Forces Management Information System.
- Identify and implement a long-term software solution for case management.
- Further document the criminal data oversight and reporting processes and procedures for the Department of Air Force Criminal Justice Information Cell (DAF-CJIC) system.

CONTRACT ADMINISTRATION

Department-wide; Identified FY 2009; Correction Target Reassessed Annually

Material Weaknesses

- The Department does not properly strategically manage Services Acquisition, define outcomes, and capture data to facilitate strategic management of the acquisition function. The Department continues to face challenges meeting fiscal year competition goals and needs to capitalize on available incentives and address improvements in the definition of contract requirements. The acquisition workforce is not appropriately sized, trained, and equipped to meet the Department's needs.

Corrective Actions

- Continue to track and monitor training requirements for the Acquisition workforce, including new training for Mid / High Level Requirements and Contracting Professionals.
- Publish a revised DoDI 5000.74, "Acquisition of Services" as required by the National Defense Authorization Act (NDAA) for FY 2017, section 803.
- Continue to implement the "Guidance on Using Incentive and Other Contract Types" codified at Defense Federal Acquisition Regulation Supplement and Procedures, Guidance, and Information section 216.104 when selecting and negotiating a contract type.
- Reduce contract closeouts by 20% and ensure there are no more than 350 over-age fixed price contract closeouts.
- Perform monthly contract audits and reconciliations; review and support rate settlement work; validate contractor estimates for deobligations; and review to determine if future billings or deobligations are warranted.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

INFORMATION TECHNOLOGY

Department-wide; Identified FY 2010; Correction Target Reassessed Annually

Material Weaknesses

- DoD financial and business management systems and processes do not provide reliable, timely, and accurate information.
- The Department experiences systemic shortfalls in implementing cybersecurity measures to safeguard the data protection environment. Gaps in cybersecurity access controls (including privileged user authentication, public key infrastructure, and device hardening / encryption) contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability.
- The Department experiences:
  - Numerous weaknesses in IT governance (especially in the areas of security management, access controls, segregation of duties, and inconsistent IT policies, procedures, and practices across the Department);
  - Lack of clear, concise IT security requirements for developed-in-house and acquired systems;
  - Inability to produce detailed user listings to support periodic recertification of privileged and non-privileged user accounts;
  - Inability to produce application-level audit logs related to account management and configuration management; and
  - Lack of periodic review and update of system-level policy documentation.
- Additionally, the Department did not assess network components for cybersecurity vulnerabilities prior to connection and throughout the component life cycle.

Corrective Actions

- Expand review and analysis of proposed information technology (IT) systems. Update the DoD Instruction (DoDI) 5000.75 and increase Investment Review Board oversight.
- Establish processes to ensure stakeholder participation in the Cybersecurity Scorecard meetings and alignment of service scorecard metrics to audit findings.
- Revise current user system access policy, to include clear guidance on requirements for privileged user access

Corrective Actions (Continued)

authorization and credential revocation, user access and control training certification, user monitoring, and Public Key Infrastructure-based authentication/credentials

- Revise current acquisition and IT purchase contracts and policy to require the adoption of established user access controls and encryption/hardening standards.
- Reinforce data encryption controls; perform periodic scans for personally identifiable information (PII) and report all findings to designated privacy managers; reinstitute annual PII training; and perform Air Force Privacy Office workload studies and associated manning adjustments as necessary.
- Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that meets the minimum password requirements specified in DoDI 8520.03 for stronger authentication.
- Develop, communicate, and implement entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties.
- Develop and provide training to users and privileged users regarding the consistent implementation of new IT security policy, procedures, and practices for Defense Health Program Component systems.
- Continuously monitor implementation of entity-level IT policies, procedures, and practices locally and holistically.
- Designate employees to manage accountable property; establish and implement cyclical inventory schedule.
- Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle.
- Automate acquisition, discovery, tracking, fielding, retirement, and involved audit processes to the greatest extent possible.
- Research and acquire, or design and implement an access control system or record.
- Update the Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.
- Clearly identify lines of demarcation between acquisition and provisioning.
- Deploy and test access control systems where appropriate.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

FORCE READINESS

Department-wide; Identified FY 2016; Correction Target Reassessed Annually

Material Weaknesses

- Independent and internal reviews of the Department's nuclear enterprise identified problems and recommendations needed for a safe, reliable, and credible nuclear deterrent. These included internal control related items such as a need for increased managerial oversight, an improved self-assessment program, increased oversight capability, and useful nuclear inspection reports.

Corrective Actions

- Develop corrective action plans that align with the recommendations from the independent reviews. Classified corrective action plans are maintained by the applicable entities within the U.S. Strategic Nuclear Forces and are based on annual Congressional funding. Remediation of this corrective action will involve incremental improvements over a multi-year horizon.

MANUFACTURING, MAINTENANCE, AND REPAIR

Department of the Navy; Identified FY 2016; Correction Target FY 2022 **(see note)**

Material Weaknesses

- Multiple internal audits and studies identified a wide range of control issues that cumulatively create material weaknesses in ship depot maintenance. Policies for defining, costing, and executing maintenance require improvement to correctly predict both cost and duration of depot maintenance.

Corrective Actions

- Identify obstacles to execution performance.
- Identify variances between Execution Year Guidance to the President's Budget and developed mitigations.
- Integrate depot maintenance into routine internal evaluations by the Risk Management Internal Control program.
- Establish processes and controls to correct over-execution of Depot Maintenance through improved planning of availabilities, more accurate planning and programming of funding, and improved oversight of availability execution.
- Develop and implement policies for planning and executing depot maintenance while correctly identifying true costs and duration.
- Establish the President's Budget as the baseline for execution year variance tracking.

Note: The Correction Target date was adjusted from FY 2020 to FY 2022. The change in Correction Target is due to the identification of additional issues during the course of the remediation process which required supplemental actions.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

PERSONNEL AND/OR ORGANIZATIONAL MANAGEMENT

Department-wide; Identified FY 2017; Correction Target FY 2023

Material Weaknesses

- Average civilian time-to-hire in the Department increased by 40% (from 70 to 106 days) between FY 2013 and FY 2017.
- The Department does not systematically collect data on hiring manager satisfaction with process or with quality of candidates for civilian positions.
- The Department manages its civilian workforce under 66 personnel systems, over 60 pay systems, and scores of special Human Resource (HR) authorities and flexibilities. This has caused excessive complexity and variability in HR processes.
- DoD HR specialists and managers lack training and tools to sufficiently manage the complex civilian federal hiring process.
- The Department has multiple civilian personnel HR service providers operating within and across components but no systems to define, collect, monitor, or analyze their performance or cost data, nor to monitor and control the types of services provided.

Corrective Actions

- The Department required all components to develop and execute data-based Action Plans to reduce time to hire. The Department's initial goal is to reduce average time to hire from 106 to 85 days or less. A Department-level functional workgroup was established and is working towards reaching target goals..
- The Department will start collecting hiring quality and satisfaction data; after determining baseline measures, the Department will establish future quality / satisfaction goals consistent with results achieved by other large federal agencies. Management has designed and launched a survey to be administered periodically in order to determine hiring managers' satisfaction levels.
- Continue undertaking procedures to simplify, streamline, and standardize HR processes and provide better, more cost-effective HR services. Pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes.
- Continue to leverage the DoD HR Functional Community to define and assess HR competencies, establish learning standards, and develop career paths.
- Execute the HR Service Delivery project to define, monitor, and evaluate key performance and efficiency measures for Defense Agency and Field Agency HR Service providers; identify and remedy instances of fragmentation, overlap, and duplication; and address inefficiencies and implement reforms.
- Transition to a single Software-as-a-Service/Cloud civilian human capital management system initially for core HR transactions, and eventually for integrated talent management (i.e., performance management, learning, compensation, awards, workforce and succession planning).

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

SUPPORT SERVICES

Department-wide; Identified FY 2017; Correction Target FY 2023 **(see note)**

Material Weaknesses

- The Department does not have sufficient Component/Assessable Unit (AU) internal audit or review of operations:
  - Lack of evidence showing sufficient leadership involvement regarding internal audit or review results.
  - The Department has received numerous Government Accountability Office and DoD Office of the Inspector General (DoD OIG) findings.
  - DoD OIG report (DoDIG 2016-031) indicates 37% of DoD internal audit organizations have deficiencies or fail in effectively monitoring Component/AU activities, and several Components / AUs do not have an internal audit or review function.
  - Systemic deficiencies (such as lack of Component internal audit coverage and lack of resourcing) exist across the internal audit and review services.
- Business Transformation: The Department spends billions of dollars each year to maintain key business functions intended to support the warfighter. Lack of support for transformation. The Department continues to confront decades-old management weaknesses related to its business functions that support these forces.

Corrective Actions

- Generate requirements for internal audit/review of operations performance and law, regulation, and policy compliance and document in DoD instruction.
- Strengthen organizational capabilities in support of DoD management objectives, focusing on end-to-end management and monitoring of reform initiatives and implementation activities.
- Update DoDI 5010.40 to reflect the most current Government Accountability Office Standards for Internal Control in the Federal Government ("Green Book") and OMB Circular A-123.
- Initiate expanded Department-wide continuous process improvement (CPI) training, develop CPI experts, and promote continuous and visible leadership support for transformation.

Note: The Correction Target date was adjusted from FY 2021 to Reassessed Annually. This change is based on the fact that the scope of the remediation efforts increased and management is continuing the evaluate progress and the projected completion timeframe.

SUPPLY OPERATIONS

Department-wide; Identified FY 2011; Correction Target Reassessed Annually

Material Weaknesses

- Insufficient asset visibility causes the Department to unnecessarily order supplies it already has. Lack of supply condition knowledge inhibits the reorder replacement for damaged supplies.
- Reductions in the number of suppliers from which the DoD can purchase raw materials and finished goods affects the Department's ability to obtain necessary supplies in a timely manner and of sufficient quality. The Department needs to continue to focus on strengthening the security and effectiveness of its supply chain.

Corrective Actions

- Improve collection and analysis of supplier threat assessments, implement methods to mitigate risks such as improved hardware and software testing, and enhance processes for approving product and vendor lists.
- Conduct an evaluation of whether DoD Components are conducting appropriate risk assessments, implementing risk mitigation strategies, and using continuous monitoring procedures
- Continue implementing the strategies and initiatives outlined in the "Better Buying Power 3.0."
- Increase internal (management) and external (public) transparency in the procurement process (e.g., by improving descriptions of procurement activities).
- Implement best practices in cost and contract management, with a focus on strategically sourcing.
- Continue use of reverse engineering where applicable and appropriate
- Repair existing parts economically and efficiently where applicable and appropriate.
- Identify and remove fraudulent suppliers currently in the supply chain, through activities such as improving supplier vetting procedures and strengthening data analytics on past and current performance metrics.
- Address limited distribution networks and transportation capabilities to transport supplies to the right place at the right time, safely, and securely to include reviews of supplier capability in transiting materials to anticipated locales in an effective manner (particular to the involved supplies).

FMFIA SECTION 4, CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

Exhibit 6 lists the FY 2020 instances of non-conformance with federal financial management systems requirements, and reports the changes from the non-conformances disclosed in the DoD AFR for FY 2019.

EXHIBIT 6: FY 2020 CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA §4)

Statement of Assurance: No Assurance						
Non-Conformance	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Business System Modernization	1					1
FISCAM[1]	1					1
FFMIA Compliance	1					1
Total Non-Conformances	**3**	**0**	**0**	**0**	**0**	**3**

EXHIBIT 6: FOOTNOTES

1 In FY 2020, the non-conformance titled "General and Application Controls" in FY 2019 was renamed to "FISCAM."

FFMIA SECTION 803(A), IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS

Exhibit 7 lists the FY 2020 instances of non-compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level.

EXHIBIT 7. FY 2020 COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS ACT (FFMIA)

	Agency	**Auditor**
Federal Financial Management Systems Requirements	Lack of Compliance Noted	Lack of Compliance Noted
Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

EXHIBIT 8. COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS CORRECTIVE ACTION PLANS

BUSINESS SYSTEM MODERNIZATION

Department-wide; Identified FY 2001; Correction Target FY 2028

Material Weaknesses

- Delays in achieving business system modernization targets has resulted in degraded DoD business process operations to include efficiency, effectiveness, and non-compliance with certain laws and regulations (e.g., FFMIA). In addition, the number of applications, hosting locations, and interfaces, as well as other variations in technology create a complex environment where it is difficult to maintain effective IT General and Application controls (including information security).

Corrective Actions

- Develop and implement a business system rationalization plan that will identify the systems to be retired, resulting in a reduced number of systems that impact financial reporting. This includes a validation of the migration plans for legacy financial management (FM) systems and identification of the core accounting systems for the Department.
- Evaluate the defense business systems environment at the enterprise level to include capturing associated systems/feeder systems.
- Develop guidance on FM system controls and build an integrated system view of the FM systems environment and by working with stakeholders to document objectives, dependencies, and milestones.
- Leverage the Notification of Findings and Recommendations (NFR) database and other Advana applications to monitor progress.
- Leverage existing working groups and governance bodies, such as the Defense Business Council, to influence business system investment decisions. To support this, the Department initiated plans to improve system inventory and mechanisms to capture costs to complete transition. These plans include updating authoritative databases to capture budget earmarked for audit remediation and consolidating the system inventory repositories for a single authoritative source.

FISCAM

Department-wide; Identified FY 2001; Correction Target FY 2026

Material Weaknesses

- The DoD IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and Enterprise Resource Planning (ERP) systems. Most of the business legacy systems were originally designed to support functional purposes (such as human resource, property, and logistics management) rather than the development of auditable financial statement reporting. The systems environment is made up of many legacy, core, and newly implemented (feeder and general ledger) systems that lack integration and are not in line with the Federal Information System Controls Audit Manual (FISCAM) requirements with regards to entity-level technology general controls, application-level general controls and automated application controls (including security management, access, segregation of duties, configuration management, system interfaces, master data, and audit trails).

Corrective Actions

- Implement an Enterprise Identity, Credential, and Access Management solution to provide standard user identity attributes; validate user access rights to protected systems; and facilitate the provision, revocation, and management of user access rights.
- Continue to track remediation progress in the NFR database and against the timelines established in the associated Corrective Action Plans. Continue to use the IT Functional Council to track remediation status and identify common solutions to material weaknesses and department wide issues.
- Continue to analyze the current IT NFRs and prioritize addressing issues with the most significant audit and security impacts.

EXHIBIT 8. COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS CORRECTIVE ACTION PLANS (CONTINUED)

FFMIA COMPLIANCE

Department-wide; Identified FY 2001; Correction Target FY 2028

Material Weaknesses

- The Department's financial systems currently do not provide the capability to record financial transactions in compliance with:
  - Current federal financial management requirements
  - Applicable federal accounting standards
  - The Treasury USSGL at the transaction level

Corrective Actions

- Five additional Components are scheduled to migrate to DAI by FY 2024. By migrating to DAI, functional capabilities needed to generate accurate and reliable financial data and reported data in compliance with USSGL requirements fulfilled.
- Continue to deploy FFMIA-compliant ERP solutions throughout the Department. Implement System Change Requests to enable additional capabilities and standardize processes and information.
- Through FY 2020, the Department completed 24 Standard Financial Information Structure compliance assessments and deployed automated capabilities within the Advana tool to continuously assess compliance and allow transparency and take action based on results.
- Continue to focus on reducing legacy financial management systems, investing in ERP systems and target financial management systems, and evolving the roles of service providers.

Army Sgt. Ebony O'Brien handles a baby goat during a veterinary event in the village of Ali Oune, Djibouti, August 30, 2020.
PHOTO CREDIT: Air Force Staff Sgt. Dana J. Cable

PAYMENT INTEGRITY INFORMATION ACT REPORTING

The reduction of improper payments and compliance with the Payment Integrity Information Act of 2019 (**PIIA**) continue to be top financial management priorities for the Department.

These priorities directly align with the **President's Management Agenda**, Cross-Agency Priority Goal 9, "**Getting Payments Right.**" The Department supports PIIA compliance through the activities of its Payment Integrity program, which is composed of 11 separate programs that collectively encompass the majority of payments made by the Department annually (see Exhibit 9).

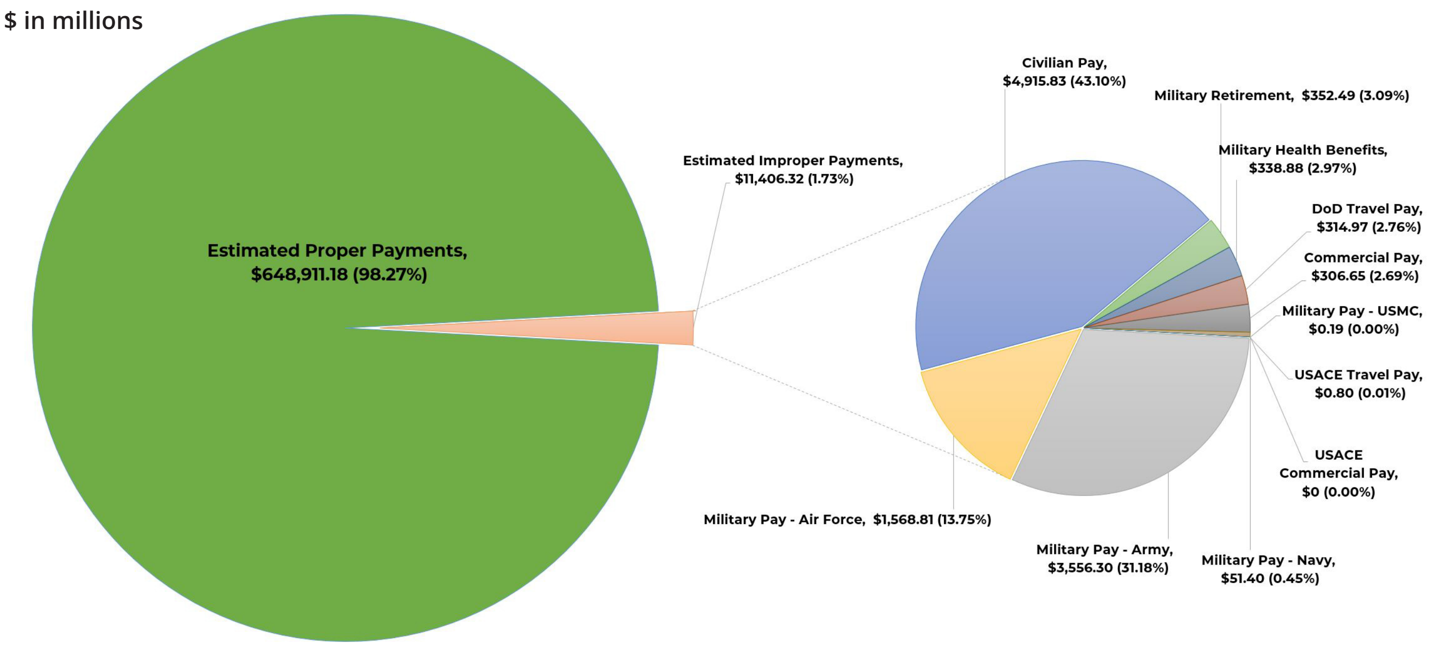
Exhibit 9: DoD Payment Integrity Programs

Civilian Pay	Payments disbursed by the Defense Finance and Accounting Service (DFAS) to civilian employees and civil service Mariners for salary, benefits, and other compensation entitlements.
Commercial Pay	Payments disbursed by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief and Coronavirus Aid, Relief, and Economic Security (CARES) Act funding payments made by the Military Services and DoD Components.
DoD Travel Pay	Payments disbursed by DFAS, the Army, the Navy, the Air Force, and the Marine Corps to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes CARES Act funding payments made by the Military Services and DoD Components.
Military Health Benefits	Payments disbursed by the Defense Health Agency (DHA) to private sector contractors for delivery of health care services to TRICARE eligible beneficiaries. It also includes CARES Act funding payments to support health and medical resources priorities.
Military Pay - Army	Payments disbursed by DFAS for the Army to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
Military Pay - Navy	Payments disbursed by DFAS for the Navy to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
Military Pay – Air Force	Payments disbursed by DFAS for the Air Force to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements. In FY 2021, payroll payments disbursed in support of U.S. Space Force will be included in this program.
Military Pay – Marine Corps	Payments disbursed by DFAS for the Marine Corps for Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
Military Retirement	Payments disbursed by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.
USACE Commercial Pay	Payments disbursed by the U.S. Army Corps of Engineers (USACE) to vendors and contractors for goods and services. It also includes Disaster Relief and CARES Act Funding payments made by USACE.
USACE Travel Pay	Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes Disaster Relief and CARES Act funding payments made by USACE.

In accordance with the Office of Management and Budget (**OMB**) memorandum, "**Risk-Based Financial Audits and Reporting Activities in Response to COVID-19**", the Department applied the OMB Circular No. A-123, **Appendix C** requirements (i.e., improper payments testing) to new Coronavirus Disease 2019 (COVID-19) response funding provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Families First Coronavirus Response Act. The memorandum permitted Payment Integrity programs that received COVID-19 related funding that were already reporting an annual improper payment estimate to incorporate the new funding into their normal sampling process. As such, the Department took measures to ensure that the financial systems used to account for COVID-19 response funding were included in the relevant program sampling plans (i.e., Commercial Pay, Military Health Benefits, DoD Travel Pay, USACE Commercial Pay, and USACE Travel Pay).

In FY 2020, the Department reported improper payment estimates below the PIIA statutory threshold of 10% for all programs, reduced Military Pay improper payments by $2.27 billion, and performed more extensive payment reviews in the Civilian Pay program. Additionally, the Navy and the Marine Corps each reported estimated improper payments of less than one percent in both the Military Pay and Civilian Pay programs. Overall, the Department identified $660.32 billion in payments[1] subject to testing under PIIA and estimated an overall improper payments rate of 1.73%. Given the large dollar amount of DoD payments, this percentage represented approximately $11.41 billion in improper payments and approximately $648.91 billion (98.27%) in properly paid payments (see Exhibit 10).

Exhibit 10: FY 2020 Estimated Improper Payments by Program

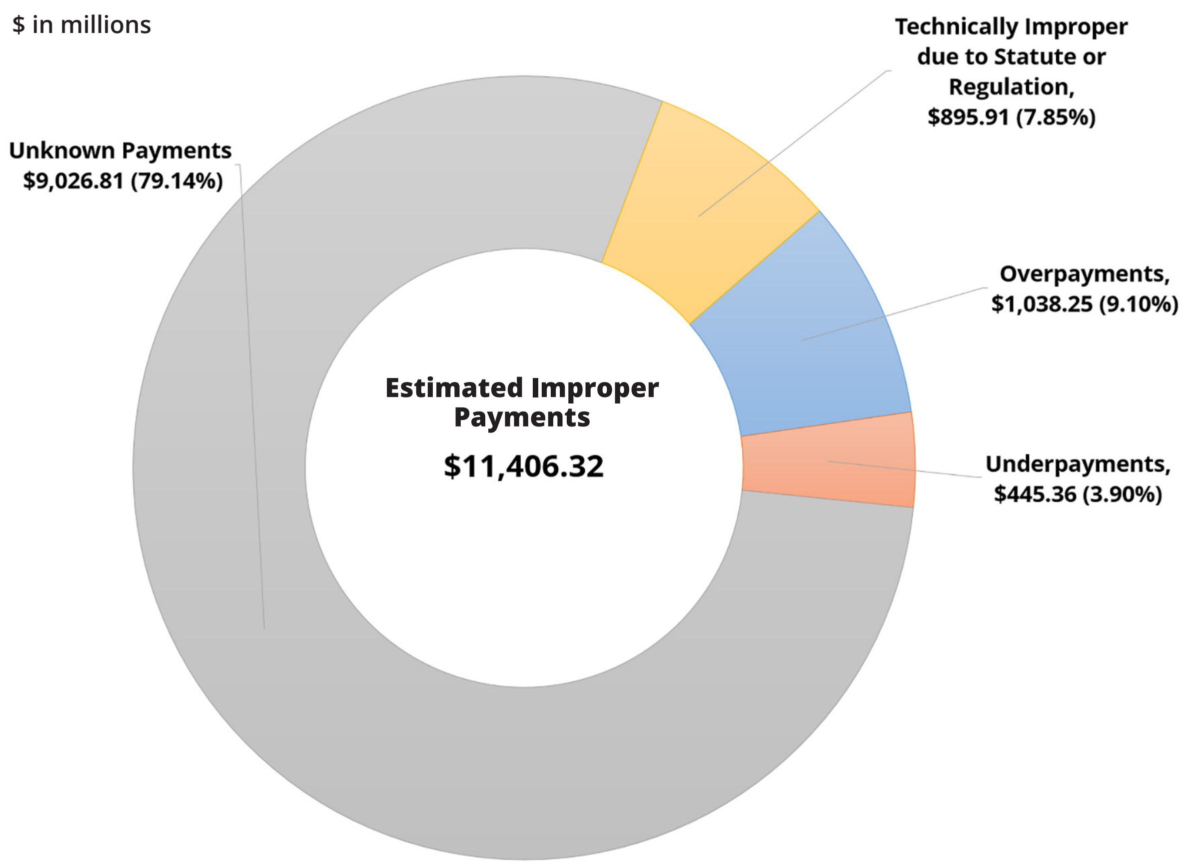


1 The Independent Auditor's Report on the DoD FY 2020 and FY 2019 Basic Financial Statements issued by the Office of Inspector General identified a material weakness related to the Universe of Transactions, and past improper payment audits identified similar weaknesses attributable to the Department's inability to perform reconciliations to provide reasonable assurance over the completeness and accuracy of populations of payments from which statistical samples are selected. Once the Department is able to validate the completeness of the universe of transactions underlying its financial statements, the Payment Integrity program will be able to demonstrate completeness and accuracy of sampled populations.

The $11.41 billion in estimated improper payments was a $2.73 billion increase from FY 2019. This increase was attributed primarily to the Department implementing a more thorough review of key supporting documentation for payments in the Civilian Pay program. The improved reviews in this program resulted in a significant increase in the identification of improper payments. In FY 2020, the Department's estimated improper payments were reported in four separate categories in accordance with OMB guidance (see Exhibit 11):

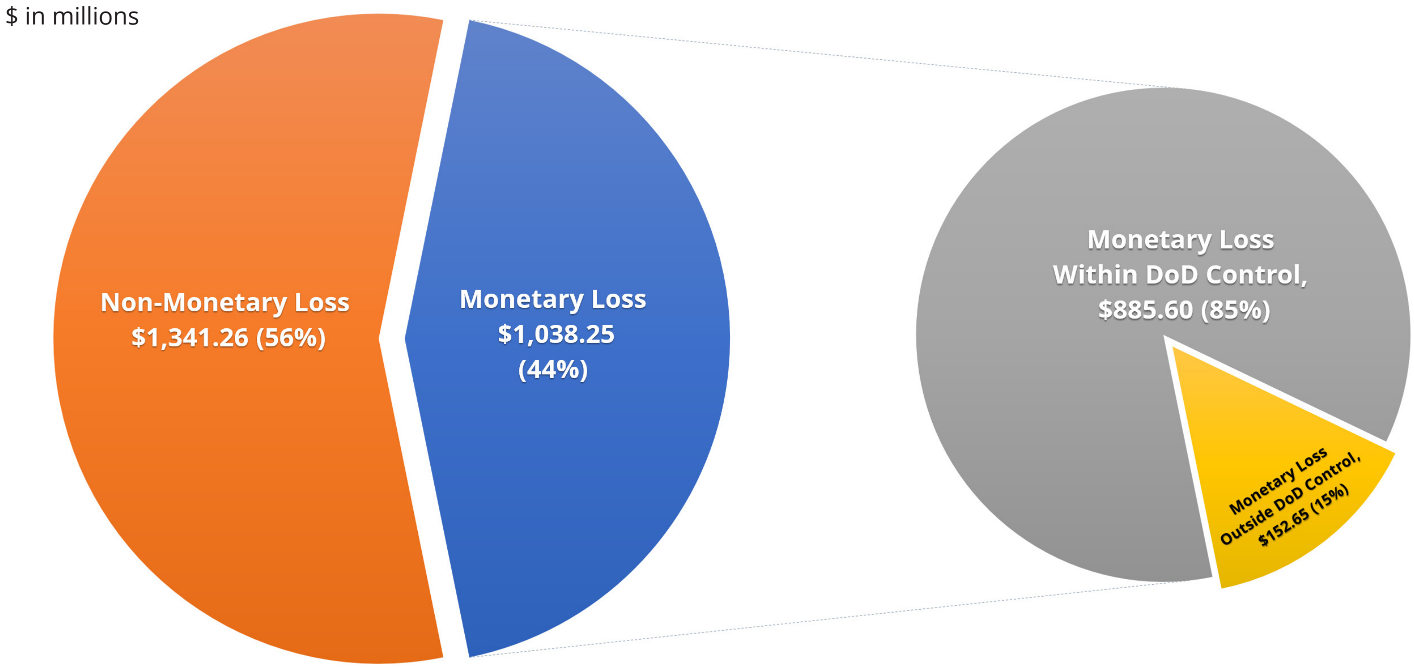
- An Overpayment is a payment in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount of the overpayment.
- An Underpayment is a payment that is less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount of the underpayment.
- A Technically Improper Payment Due to Statute or Regulation is a payment made to the right recipient for the right amount, but the payment process failed to follow applicable regulations and/or statutes.
- An Unknown payment is a payment that could be either proper or improper, but the Department is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

Exhibit 11: FY 2020 Estimated Improper Payments by Category



The $1.04 billion in overpayments represent monetary losses (amounts that should not have been paid by the Department and in theory should/could be recovered. This amount was further classified into two subcategories – those within DoD control of $885.60 million and those outside DoD control of $152.65 million (see Exhibit 12).

Exhibit 12: FY 2020 Estimated Improper Payments by Classification



The $1.34 billion estimated total non-monetary loss represents underpayments and amounts paid to the proper recipients and for the appropriate amounts, but did not follow applicable regulations and statutes. Unknown payments ($9.03 billion) are not reported as monetary or non-monetary losses.

Please refer to the OMB website, **paymentaccuracy.gov**, for the following payment integrity information not included in this section:

- PIIA Compliance
- Accountability
- Internal Controls and Human Capital
- Agency Information Systems and Other Infrastructure
- Risk Assessments
- Do Not Pay Initiative

PAYMENT REPORTING

Exhibit 13 reports estimated FY 2020 proper payments (PP), improper payments (IP), improper payments by category, and testing period for each program. The data does not include intra-governmental or classified payments.

Exhibit 13: FY 2020 Estimated Improper Payments by Program and Category

($ in millions)

Program Name	FY 2020 Outlays Amount ($)	FY 2020 PP Amount ($)	FY 2020 PP Rate (%)	FY 2020 IP Amount ($)	FY 2020 IP Rate (%)	FY 2020 Overpayments Amount ($)	FY 2020 Overpayments Rate (%)	FY 2020 Underpayments Amount ($)	FY 2020 Underpayments Rate (%)	FY 2020 Unknown Payments Amount ($)	FY 2020 Unknown Payments Rate (%)	FY 2020 Technically Improper due to Statute or Reg Amount ($)	FY 2020 Technically Improper due to Statute or Reg (%)	Month and Year Start Date for Data	Month and Year End Date for Data
Military Health Benefits[1]	$23,190.07	$22,851.19	98.54%	$338.88	1.46%	$152.65	0.66%	$169.18	0.73%	$17.05	0.07%	-	-	Aug-2018	Oct-2019
Military Pay - Army[2]	43,707.45	40,151.15	91.86%	3,556.30	8.14%	205.58	0.47%	61.63	0.14%	2,827.47	6.47%	461.62	1.06%	Oct-2018	Sep-2019
Military Pay - Navy[2,3]	25,014.68	24,963.27	99.79%	51.40	0.21%	23.56	0.09%	0.35	0.00%	27.50	0.11%	-	-	Oct-2018	Sep-2019
Military Pay - Air Force[2]	27,808.65	26,239.84	94.36%	1,568.81	5.64%	109.27	0.39%	38.87	0.14%	1,170.85	4.21%	249.80	0.90%	Oct-2018	Sep-2019
Military Pay - Marine Corps[2]	11,245.97	11,245.78	100.00%	0.19	0.00%	0.19	0.00%	-	-	-	-	-	-	Oct-2018	Sep-2019
Civilian Pay[4]	61,996.62	57,080.79	92.07%	4,915.83	7.93%	4.64	0.01%	-	-	4,911.19	7.92%	-	-	Oct-2018	Sep-2019
Military Retirement	72,966.70	72,614.22	99.52%	352.49	0.48%	186.08	0.26%	162.33	0.22%	4.08	0.01%	-	-	Aug-2019	Jul-2020
DoD Travel Pay	7,380.79	7,065.82	95.73%	314.97	4.27%	49.72	0.67%	12.10	0.16%	68.67	0.93%	184.48	2.50%	Jul-2019	Jun-2020
Commercial Pay[5,6,7]	363,267.03	362,960.38	99.92%	306.65	0.08%	305.77	0.08%	0.88	0.00%	-	-	-	-	Jul-2019	Jun-2020
USACE Travel Pay	190.82	190.01	99.58%	0.80	0.42%	0.78	0.41%	0.02	0.01%	-	-	-	-	Jul-2019	Jun-2020
USACE Commercial Pay	23,548.71	23,548.71	100.00%	-	-	-	-	-	-	-	-	-	-	Jul-2019	Jun-2020
TOTAL	**$660,317.50**	**$648,911.18**	**98.27%**	**$11,406.32**	**1.73%**	**$1,038.25**	**0.16%**	**$445.36**	**0.07%**	**$9,026.81**	**1.37%**	**$895.91**	**0.14%**		

Note: Amounts may not sum or calculate exactly due to rounding.

EXHIBIT 13 FOOTNOTES:

1 The sample populations for the Military Health Benefits program are comprised of seven sub-programs. Of these, four sub-programs represent 85% of the total outlays and fall within the period October 2018 to September 2019; one sub-program represents 13% of the total outlays and falls within the period of November 2018 and October 2019, and two sub-programs represent 2% of the total outlays and fall within the period of August 2018 and August 2019. DHA's staggered sampling time frames are the result of the various TRICARE purchased care contract option year start work dates that are defined to represent external independent contractor quarterly or semi-annual sampling time frames.

2 In FY 2020, the Department divided the Military Pay program into four separate programs (i.e., Army, Navy, Air Force, and Marine Corps). The combined Military Pay estimated IP rate decreased by 2.45% from 7.25% in FY 2019 to 4.80% in FY 2020, and the combined estimated IP amount decreased by $2,273.57 million from $7,450.26 million in FY 2019 to $5,176.69 million in FY 2020.

3 The Military Pay – Navy estimated IP rate was reduced to 0.21% through forward-leaning partnerships, supportive leadership, and effective corrective actions. Specifically, key commands within the Department of the Navy (DON), such as the Bureau of Naval Personnel and Navy's Reserve Forces Command, worked throughout the DON and with DFAS to identify key supporting documentation (KSD) early in the review process, establish a clear understanding of what constituted KSD, and obtained reports noting deficiencies earlier for correction.

4 As a direct result of the new sampling plan and testing methodology, the Civilian Pay estimated IP rate increased by 7.78% from 0.14% in FY 2019 to 7.93% in FY 2020, and the estimated IP amount increased by $4,819.14 million from $96.69 million in FY 2019 to $4,915.83 million in FY 2020.

5 The Commercial Pay program reports Army Outside the Continental United States office disbursements for a 12-month sampling timeframe of August 2019 to July 2020.

6 The Commercial Pay program includes payments for the "transportation of things" and payments made for government purchase cards. Title 31, United States Code, section 3726 (**31 U.S.C. §3726**) gives the General Services Administration (**GSA**) the authority and responsibility to audit and settle all federal payments for transportation of things. The GSA **Transportation Audits Division** conducts post-payment audits on all transportation payments (and supporting documentation) provided by the Department. GSA reviews DoD transportation payments for overcharges only. GSA finances their post-payment audit contract and audit-related functions with overpayments collected from the transportation payments previously paid by the Department and other federal agencies. GSA reported a Total Value of Notice of Overcharges (NOCs) of $14.02 million related to DoD transportation payments for the 12-month period of July 2019 to June 2020. The GSA reported NOCs were included in the FY 2020 Commercial Pay IP estimate.

7 The Commercial Pay program is reported as the DFAS Commercial Pay program on paymentaccuracy.gov.

Exhibit 14 reports FY 2020 estimated improper payments by classification for each program.

Exhibit 14: FY 2020 Estimated Improper Payments by Program and Classification
($ in millions)

Program Name	FY 2020 IP Amount ($)	FY 2020 Monetary Loss Amount ($)	FY 2020 Monetary Loss Rate (%)	FY 2020 Non-Monetary Loss Amount ($)	FY 2020 Non-Monetary Loss Rate (%)	FY 2020 Unknown Payments Amount ($)	FY 2020 Unknown Payments Rate (%)
Military Health Benefits	$338.88	$152.65	45.05%	$169.18	49.92%	$17.05	5.03%
Military Pay - Army	3,556.30	205.58	5.78%	523.25	14.71%	2,827.47	79.51%
Military Pay - Navy	51.40	23.56	45.83%	0.35	0.68%	27.50	53.49%
Military Pay - Air Force	1,568.81	109.27	6.97%	288.68	18.40%	1,170.85	74.63%
Military Pay - Marine Corps	0.19	0.19	100.00%	-	-	-	-
Civilian Pay	4,915.83	4.64	0.09%	-	-	4,911.19	99.91%
Military Retirement	352.49	186.08	52.79%	162.33	46.05%	4.08	1.16%
DoD Travel Pay	314.97	49.72	15.79%	196.58	62.41%	68.67	21.80%
Commercial Pay	306.65	305.77	99.71%	0.88	0.29%	-	-
USACE Travel Pay	0.80	0.78	96.94%	0.02	3.06%	-	-
USACE Commercial Pay	-	-	-	-	-	-	-
TOTAL	**$11,406.32**	**$1,038.25**		**$1,341.26**		**$9,026.81**	

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 15 reports the FY 2021 estimated outlays, improper payment amounts, and OMB approved future year reduction target improper payment rates by program.

Exhibit 15: FY 2021 Estimated Improper Payment Out Year Projections by Program
($ in millions)

Program Name	FY 2021 Outlays ($)	FY 2021 IP Amount ($)	FY 2021 IP Rate (%)
Military Health Benefits[1]	$24,093.98	$348.46	1.45%
Military Pay - Army[2]	45,018.67	-	-
Military Pay - Navy[2]	25,765.12	-	-
Military Pay - Air Force[2]	28,642.91	-	-
Military Pay - Marine Corps[2]	11,583.35	-	-
Civilian Pay[3]	63,856.52	-	-
Military Retirement	74,426.04	297.70	0.40%
DoD Travel Pay[4]	7,454.60	372.73	5.00%
Commercial Pay	381,430.39	247.93	0.07%
USACE Travel Pay	214.07	0.88	0.41%
USACE Commercial Pay	25,437.03	30.52	0.12%
TOTAL	**$687,922.67**	**$1,298.23**	**0.19%**

Note: Amounts may not sum or calculate exactly due to rounding.

EXHIBIT 15 FOOTNOTES:

1 DHA established its FY 2021 Military Health Benefits estimated IP rate of 1.45% based on IP results from the previous four fiscal years.

2 The Department was not able to estimate future year IP rates and amounts for the Military Pay - Army, Military Pay - Navy, Military Pay - Air Force, and Military Pay - Marine Corps programs. FY 2020 was the initial year for reporting separate IP amounts and rates for these programs; as a result, baselines were not yet established to generate future estimates. The Department will estimate future year IP rates and amounts for each program in the FY 2021 Agency Financial Report.

3 The Department was not able to estimate a future year IP rate and amount for the Civilian Pay program because a new sampling and testing methodology was implemented in FY 2020. As a result, a baseline was not yet established to generate a future estimate. The Department will estimate a future year IP rate and amount for the Civilian Pay program in the FY 2022 Agency Financial Report.

4 The Department estimated its FY 2021 DoD Travel Pay IP target rate based on the average IP rates reported in the previous five fiscal years due to the high risk and impact of human error on this program. The average IP rate for FY 2016 through FY 2020 was 5.17%. As such, the Department is confident that 5.00% is an achievable target rate in FY 2021. This rate is 0.40% lower than the target rate of 5.40% that was projected for FY 2020.

Exhibit 16 reports the root causes of overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations by amount and program for FY 2020.

Exhibit 16: FY 2020 Estimated Improper Payments by Program, Category, and Root Cause

($ in millions)

Program Name	Payment Type	Insufficient Documentation to Determine	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: Other Party [1]	Program Design or Structural Issue	Inability to Authenticate Eligibility: Inability to Access Data	Medical Necessity	TOTAL
Military Health Benefits[2]	Overpayments	-	-	$142.92	-	$6.55	$3.18	**$152.65**
	Underpayments	-	-	159.06	-	10.12	-	**$169.18**
	Unknown Payments	17.05	-	-	-	-	-	**$17.05**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
Military Pay - Army[2]	Overpayments	-	205.58	-	-	-	-	**$205.58**
	Underpayments	-	61.63	-	-	-	-	**$61.63**
	Unknown Payments	2,827.47	-	-	-	-	-	**$2,827.47**
	Technically Improper due to Statute or Reg	-	-	-	461.62	-	-	**$461.62**
Military Pay - Navy	Overpayments	-	23.56	-	-	-	-	**$23.56**
	Underpayments	-	0.35	-	-	-	-	**$0.35**
	Unknown Payments	27.50	-	-	-	-	-	**$27.50**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
Military Pay - Air Force[2]	Overpayments	-	109.27	-	-	-	-	**$109.27**
	Underpayments	-	38.87	-	-	-	-	**$38.87**
	Unknown Payments	1,170.85	-	-	-	-	-	**$1,170.85**
	Technically Improper due to Statute or Reg	-	-	-	249.80	-	-	**$249.80**
Military Pay - Marine Corps	Overpayments	-	$0.19	-	-	-	-	**$0.19**
	Underpayments	-	-	-	-	-	-	**-**
	Unknown Payments	-	-	-	-	-	-	**-**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
Civilian Pay[2]	Overpayments	-	4.64	-	-	-	-	**$4.64**
	Underpayments	-	-	-	-	-	-	**-**
	Unknown Payments	4,911.19	-	-	-	-	-	**$4,911.19**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
Military Retirement [2]	Overpayments	-	186.08	-	-	-	-	**$186.08**
	Underpayments	-	162.33	-	-	-	-	**$162.33**
	Unknown Payments	4.08	-	-	-	-	-	**$4.08**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
DoD Travel Pay [2]	Overpayments	-	49.72	-	-	-	-	**$49.72**
	Underpayments	-	12.10	-	-	-	-	**$12.10**
	Unknown Payments	68.67	-	-	-	-	-	**$68.67**
	Technically Improper due to Statute or Reg	-	-	-	184.48	-	-	**$184.48**
Commercial Pay[2]	Overpayments	-	$305.77	-	-	-	-	**$305.77**
	Underpayments	-	0.88	-	-	-	-	**$0.88**
	Unknown Payments	-	-	-	-	-	-	**-**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
USACE Travel Pay	Overpayments	-	0.78	-	-	-	-	**$0.78**
	Underpayments	-	0.02	-	-	-	-	**$0.02**
	Unknown Payments	-	-	-	-	-	-	**-**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
USACE Commercial Pay	Overpayments	-	-	-	-	-	-	**-**
	Underpayments	-	-	-	-	-	-	**-**
	Unknown Payments	-	-	-	-	-	-	**-**
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	**-**
Total		**$9,026.81**	**$1,161.77**	**$301.98**	**$895.91**	**$16.68**	**$3.18**	**$11,406.32**

Note: Amounts may not sum or calculate exactly due to rounding.

EXHIBIT 16 FOOTNOTES:

1 “Other Party” includes participating lenders, health care providers, and any other organizations administering federal dollars.

2 The Military Health Benefits, Military Pay – Army, Military Pay – Air Force, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay programs were determined to be susceptible to significant improper payments in accordance with OMB Circular No. A 123, Appendix C.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS

When significant improper payments are identified in a program through testing, DoD Components are required to determine the root causes and develop corrective action plans (CAPs) to remediate them. The CAPs are monitored throughout the year by the DoD Components and the Office of the Under Secretary of Defense (Comptroller) (**OUSD(C)**) to ensure milestone dates are completed on a timely basis. The implementation and effectiveness of corrective actions are evaluated through the subsequent improper payment testing results for the program.

Based on the testing performed in the 11 programs in FY 2020, seven programs (Military Health Benefits, Military Pay – Army, Military Pay – Air Force, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay) were estimated to have made improper payments in excess of $100 million and were therefore required to develop and disclose CAPs. OUSD(C) worked with DoD Components to strengthen the CAPs for these programs by reinforcing the need for measurable and effective milestones to achieve desired results.

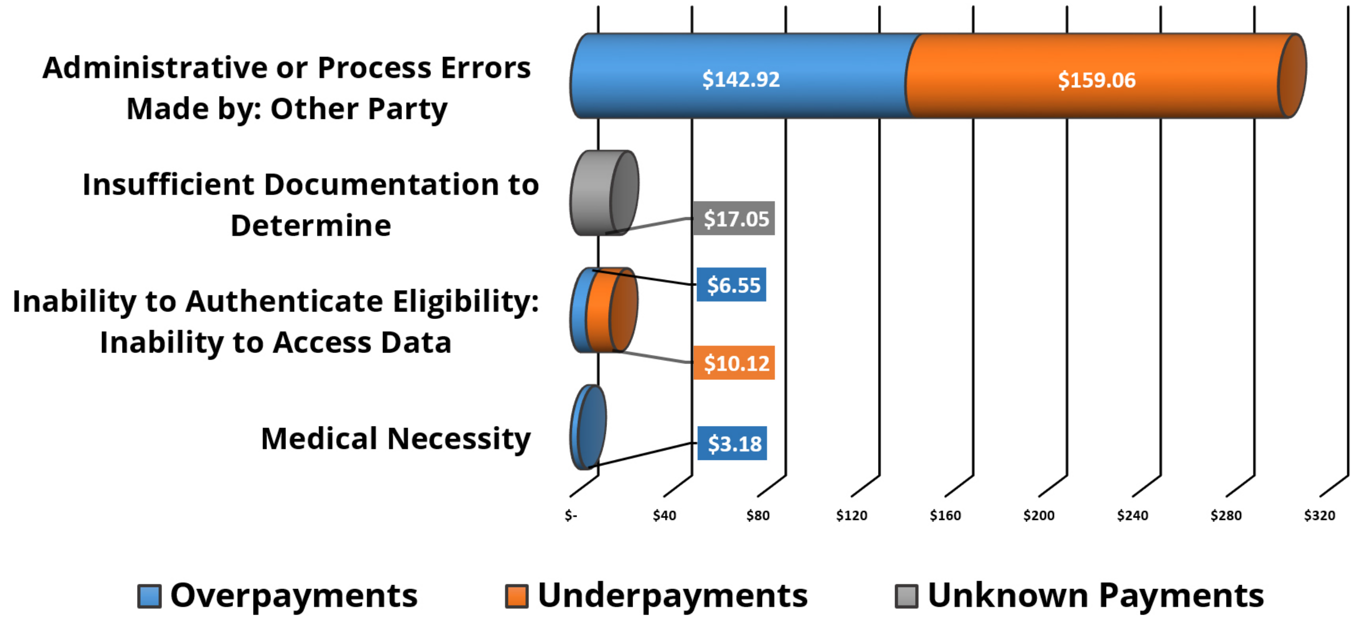
Military Health Benefits

In FY 2020, the estimated improper payments for the Military Health Benefits program were $338.88 million (see Exhibit 17). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 1.46% (+/- 0.54) improper payment rate and an estimated proper processing rate of 98.54%.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 17: FY 2020 Military Health Benefits Estimated Improper Payments by Root Cause

($ in millions)



The majority of the improper payments identified in the Military Health Benefits program resulted from a contractor in the East Regional TRICARE managed care support contract (MCSC) making administrative or process errors when paying TRICARE claims. Specifically, the contractor processed duplicate payments for previously paid healthcare services or supplies, miscalculated hospital reimbursement rates based on the TRICARE reimbursement system(s)/methodology, and omitted provider or procedural discounts when making final payments. DHA determined that these errors occurred due to the following root causes:

- Payment systems were not updated timely with accurate beneficiary information,
- Lack of sufficient training for data entry professionals,
- Lack of sufficient/effective supervision (i.e., review) over the data entry process and reports generated, and
- Employee turnover.

In accordance with OMB Circular No. A-123, Appendix C, DHA does not deem it to be cost effective to create CAPs for the Medical Necessity, Inability to Authenticate Eligibility: Inability to Access Data, and Insufficient Documentation to Determine root cause categories due to the immaterial amounts associated with these improper payments. However, DHA private sector contractors are contractually required to perform the following actions to prevent improper payments:

- Review improper payment testing result, formulate an action plan to mitigate findings, and develop process improvements to avoid future improper payments.
- If warranted, modify claims processing systems to meet the Department's health care policy, reimbursement, and benefit requirements.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 18: Military Health Benefits Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Processing Errors Made by: Other Party Improper payments resulted from the following administrative or process errors: ■ Inaccurately calculating hospital reimbursement rates ■ Inaccurately calculating and/or omitting provider or procedural discounts when making final payment.	Analyzed respective claims processing systems to ensure systems are developed to meet TRICARE policy benefit and reimbursement requirements.	Completed August 2020
	Identified and establish procedures to mitigate claims processing system gaps and deficiencies.	Completed August 2020
	Issued a requirement to the Private Care contractor and sub-contractors to develop CAPs to include defining root causes for improper payments, change/update algorithms in computerized claims processing programs, review and revise staff training programs, and increase supervision of personnel.	Completed September 2020
	Tasked the Private Care contractor with providing quarterly progress reports to demonstrate the actions taken and measure progress toward improving deficiencies identified in business processes.	Completed September 2020
	Monitor necessary system modifications are completed and claims are adjusted according to errors identified by DHA's external compliance review Contractor.	September 2021

In FY 2020, the corrective actions DHA directed to be taken by the contractor in the East Regional TRICARE MCSC directly resulted in a $72.57 million (or 17.64%) reduction in estimated improper payments in the Military Health Benefits program. The corrective actions are ongoing and DHA anticipates completing their CAPs in FY 2021.

Members from the 11th Space Warning Squadron wait for the Induction into the U.S. Space Force Ceremony to begin at Wings Over the Rockies Air and Space Museum in Denver September 1, 2020.

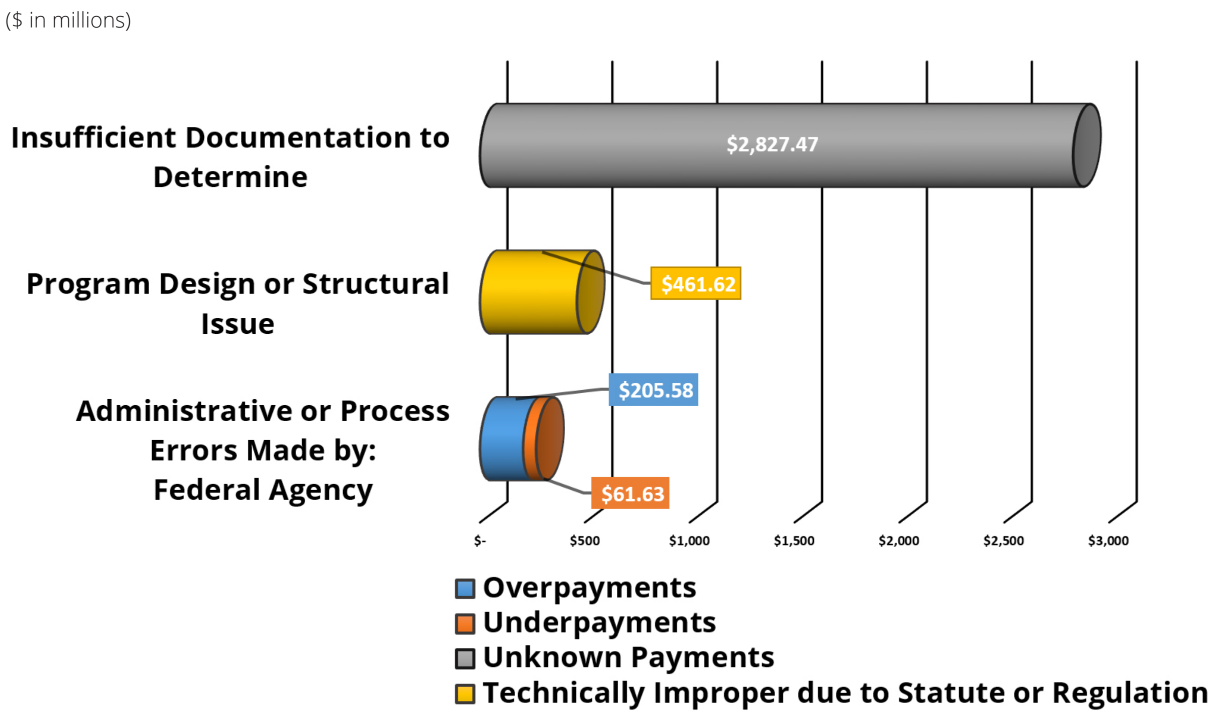
PHOTO CREDIT: U.S. Air Force photo by Airman 1st Class Haley N. Blevins

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Military Pay - Army

In FY 2020, the estimated improper payments for the Military Pay - Army program were $3,556.30 million (see Exhibit 19). This estimate was based on a sampling methodology with a 95% confidence level, which equated to 8.14% (+/- 1.36) improper payment rate and an estimated proper processing rate of 91.86%.

Exhibit 19: FY 2020 Military Pay - Army Estimated Improper Payments by Root Cause



The majority of the improper payments identified for the Military Pay - Army program resulted from insufficient supporting documentation and may or may not equate to inaccurate payments or monetary losses to the Department. The Army determined that the insufficient supporting documentation errors resulted from the following root causes:

- Lack of a centralized and/or integrated pay and personnel system;
- Communication challenges within Army Commands, and between Army personnel and DFAS payment reviewers; and
- Lack of proper understanding of what represents sufficient supporting documentation for payroll payments.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 20: Military Pay - Army Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Insufficient Documentation to Determine Insufficient Documentation Errors related to the following entitlements and/or allowances: ■ Basic Allowance for Housing (BAH) ■ Overseas Housing Allowance (OHA) ■ Cost of Living Allowance (COLA) ■ Family Separation Allowance (FSA) ■ Basic Pay	Developed CAPs to address specific root causes identified for improper payments attributable to payroll disbursements.	Completed January 2020
	Establish a robust timeline of activities to improve the distribution, reconciliation, and key supporting documentation (KSD) response process. In addition, accelerated the post payment review schedule to allow all stakeholders to adjudicate actions required to identify and report improper payments.	November 2020
	Review and validate the Army KSD Matrix to confirm there is a comprehensive listing of documents for each type of entitlement and/or allowances paid.	November 2020
	Issue guidance for substantive testing requirements for KSDs related to BAH, Basic Pay, COLA, FSA, and OHA entitlements.	November 2020
	Host a Military Pay entrance conference with all key stakeholders to discuss the post payment review objective, timelines, and supporting documentation requirements to assist with establishing clear expectations for the entire duration of the review period.	December 2020
	Develop and/or update the post payment review procedures to include an effective communication plan.	May 2021
	Develop procedures to utilize a centralized collaboration software tool/platform to disseminate samples to DoD Components, collect supporting documentation and furnish final improper payment results.	May 2021
Administrative or Process Errors Made by the Department Improper payments resulted from the following administrative or process errors: ■ Payroll data input errors ■ Untimely updates to payroll records and systems.	Perform an in-depth analysis of Military Pay transactions to determine the actual root causes of payroll disbursements errors identified during the post payment review.	December 2020
	Develop CAPs to address specific root causes identified for improper payments that attributed to payroll disbursements.	December 2020
	Implement the Integrated Personnel and Pay System-Army (IPPS-A) to improve the accuracy, effectiveness, and auditability of military pay transactions. In conjunction with the phased implementation of IPPS-A, the Army has initiated a three-prong strategy for training human resources professionals on military pay.	January 2022

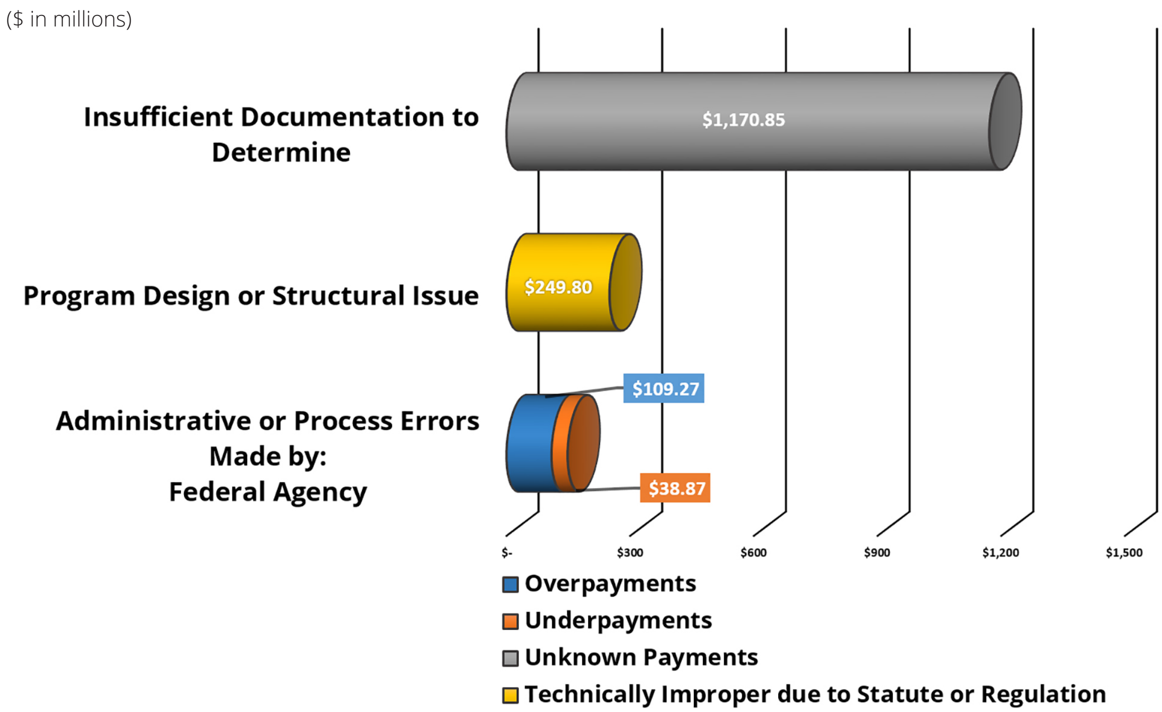
In FY 2020, Army corrective actions to improve the quality of supporting documentation for payroll payments directly resulted in a $247.18 million reduction in estimated improper payments. Moreover, this reduction contributed to approximately 10.87% of the Department's overall Military Pay reduction of $2,273.53 million in estimated improper payments in FY 2020. In FY 2021, the Army will take additional corrective actions to improve the timeliness and quality of supporting documentation to further reduce improper payments.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Military Pay - Air Force

In FY 2020, the estimated improper payments for the Military Pay - Air Force program were $1,568.81 million (see Exhibit 21). This estimate was based on a sampling methodology with a 95% confidence level, which equated to 5.64% (+/- 1.22) improper payment rate and an estimated proper processing rate of 94.36%.

Exhibit 21: FY 2020 Military Pay - Air Force Estimated Improper Payments by Root Cause



The majority of the improper payments identified for the Military Pay - Air Force program resulted from insufficient supporting documentation and may or may not equate to inaccurate payments or monetary losses to the Department. The Air Force determined that the insufficient supporting documentation errors resulted from the following root causes:

- Lack of a centralized and/or integrated pay and personnel system;
- Communication challenges within Air Force Commands and Centers and between Air Force personnel and DFAS payment reviewers; and
- Lack of proper understanding of what represents sufficient supporting documentation for payroll payments.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 22: Military Pay – Air Force Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Insufficient Documentation to Determine Insufficient Documentation Errors related to the following entitlements and/or allowances: ■ Basic Allowance for Housing (BAH) ■ Overseas Housing Allowance (OHA) ■ Save Pay ■ Flying Duty Pay ■ Basic Pay	Developed CAPs to address specific root causes identified for improper payments attributable to payroll disbursements.	Completed January 2020
	Establish a robust timeline of activities to improve the distribution, reconciliation, and key supporting documentation (KSD) response process. In addition, accelerated the post payment review schedule to allow all stakeholders to adjudicate actions required to identify and report improper payments.	November 2020
	Develop and disseminate a data call request to identify all stakeholders who oversee and/or manage Military Pay human resource activities.	November 2020
	Host a Military Pay entrance conference with all key stakeholders to discuss the post payment review objective, timelines, and supporting documentation requirements to assist with establishing clear expectations for the entire duration of the review period.	December 2020
	Develop and/or update the post payment review procedures to include an effective communication plan.	May 2021
	Develop procedures to utilized a centralized collaboration software tool/platform to disseminate samples to DoD Components, collect supporting documentation and furnish final improper payment results.	May 2021
Administrative or Process Errors Made by the Department Improper payments resulted from the following administrative or process errors: ■ Payroll data input errors ■ Untimely updates to payroll records and systems.	Perform an in-depth analysis of Military Pay transactions to determine the actual root causes of payroll disbursements errors identified during the post payment review.	December 2020
	Develop CAPs to address specific root causes identified for improper payments that attributed to payroll disbursements.	December 2020
	Implement the Air Force Integrated Personnel and Pay system (AF-IPPS), a single Total Force military personnel and pay system, enabling financial auditability and long-term sustainment.	January 2021

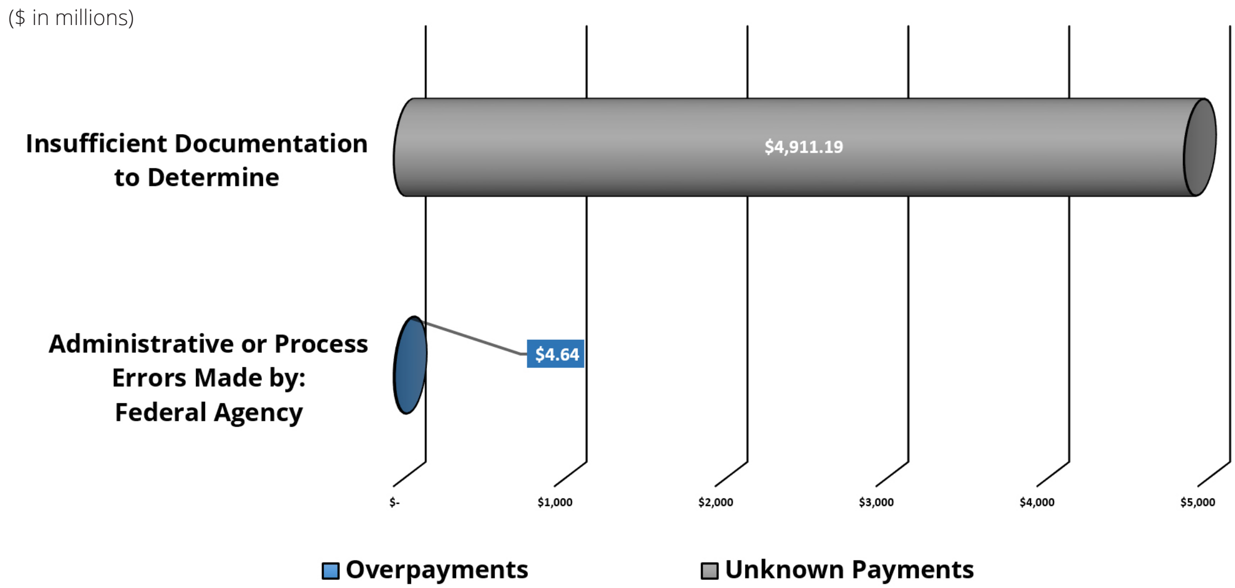
In FY 2020, Air Force corrective actions to improve the quality of their supporting documentation for payroll payments directly resulted in a $1,866.56 million reduction in estimated improper payments. Moreover, this reduction contributed to approximately 82.10% of the Department's overall Military Pay reduction of $2,273.53 million in estimated improper payments in FY 2020. In FY 2021, the Air Force will take additional corrective actions to improve the timeliness and quality of supporting documentation to further reduce improper payments.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Civilian Pay

In FY 2020, the estimated improper payments for the Civilian Pay program were $4,915.83 million (see Exhibit 23). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 7.93% (+/- 1.50) improper payment rate and an estimated proper processing rate of 92.07%.

Exhibit 23: FY 2020 Civilian Pay Estimated Improper Payments by Root Cause



In FY 2020, the Department implemented a new sampling and testing methodology for this program which, for the first time, included verification of civilian employees' basic pay and benefits (or entitlements) against the following supporting documentation:

- Standard Form 50 (SF-50), Notification of Personnel Action; and/or
- SF-1190, Foreign Allowances Application, Grant and Report.

As a result of the Department performing more thorough reviews of civilian payroll payments, improper payments resulting from insufficient supporting documentation that were not detected through previous testing methodologies were identified in FY 2020. Improper payments resulting from insufficient supporting documentation may or may not equate to inaccurate payments or monetary losses to the Department.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

The Department determined that the root cause of the insufficient supporting documentation errors resulted primarily from internal communication challenges experienced during the implementation of the new testing methodology:

- Late identification and verification of Component Human Resources Offices contributed to the delayed distribution of payment samples and, in turn, the late delivery of supporting documentation.
- The Department did not provide sufficient training and/or guidance to the Components on the requirements for supporting documentation.
- Insufficient supporting documentation provided for payment samples identified by DFAS reviewers were not communicated timely to the Components for correction.

Exhibit 24: Civilian Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Insufficient Documentation to Determine Insufficient Documentation errors included: ▪ Untimely distribution of samples ▪ Lack of and/or inadequate supporting documentation provided	Updated the DFAS post payment review standard operating procedures and implemented a new sampling plan and testing methodology to include an extensive review of key supporting documentation (KSD) for entitlements paid to civilian employees to verify the accuracy and eligibility of pay allowances.	Completed June 2020
	Establish a robust timeline of activities to improve the distribution, reconciliation, and KSD response process. In addition, accelerated the post payment review schedule to allow all stakeholders to adjudicate actions required to identify and report improper payments.	November 2020
	Identify Human Resource Offices points of contact for all DoD Components.	November 2020
	Host a Civilian Pay entrance conference with all key stakeholders to discuss the post payment review objectives, timelines, and supporting documentation requirements to assist with establishing clear expectations for the entire duration of the review period.	December 2020
	Develop and furnish monthly reports on the status of post payment reviews to include improper payment results (to-date) with corresponding error type, number of samples reviewed, number of samples not received, missing and/or incomplete documentation stats, etc. In addition, present the status to the Senior Accountable Official Committee on a quarterly basis.	May 2021
	Develop and/or update the post payment review procedures to include an effective communication plan.	May 2021
	Develop procedures to utilize a centralized collaboration software tool/platform to disseminate samples to DoD Components, collect supporting documentation and furnish final improper payment results.	May 2021

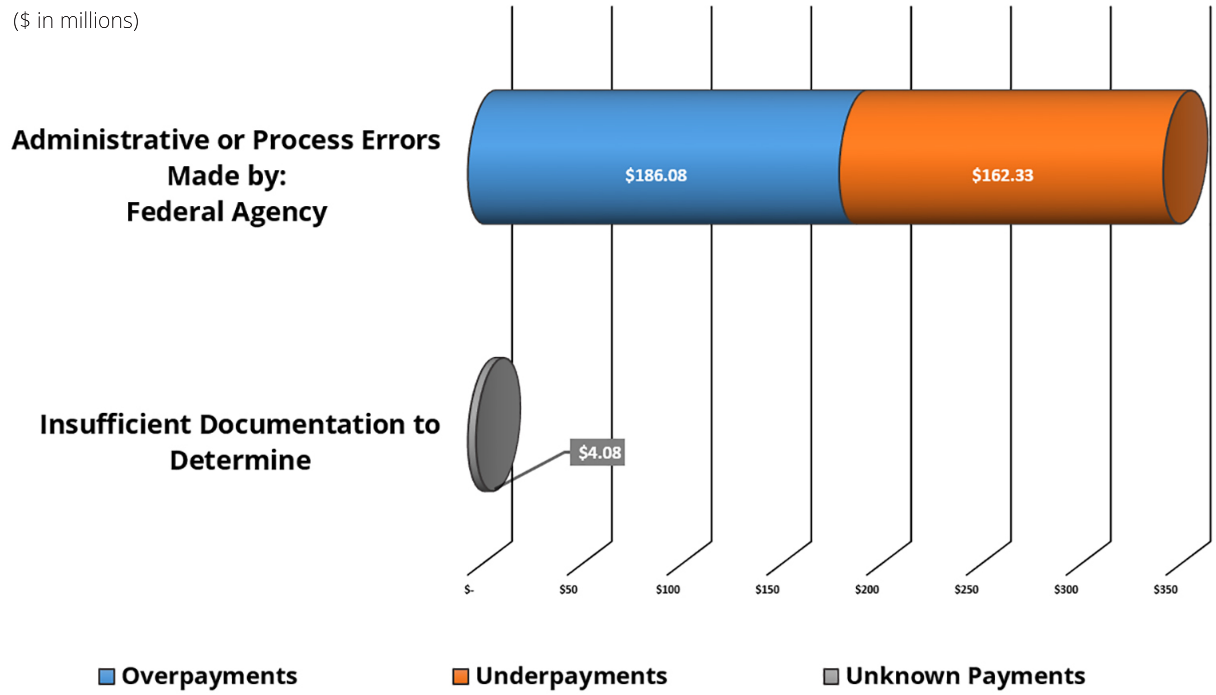
In FY 2020, the Department's more thorough sampling and testing methodology for the Civilian Pay program directly resulted in a $4,819.14 million increase in estimated improper payments. The improved level of review, however, enabled the Components to more adequately assess the risk of improper payments, identify the primary entitlement drivers of improper payments, and develop corrective actions to improve communication and the timeliness/quality of the supporting documentation to further reduce their Civilian Pay improper payments in FY 2021. Moreover, the Civilian Pay improper payments for the Navy and the Marine Corps were estimated to be less than one percent as a result of effective actions taken throughout FY 2020 to identify key supporting documentation early in the review process, establish a clear understanding of what constituted sufficient supporting documentation, and obtain reports noting deficiencies earlier for correction.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Military Retirement

In FY 2020, the estimated improper payments for the Military Retirement program were $352.49 million (see Exhibit 25). This estimate was based on a sampling methodology with a 95% confidence level, equating to a 0.48% (+/- 0.26) improper payment rate and an estimated proper processing rate of 99.52%.

Exhibit 25: FY 2020 Military Retirement Estimated Improper Payments by Root Cause



The majority of the improper payments identified for the Military Retirement program resulted from the following types of administrative or process errors identified during retired and annuitant pay account reviews:

- Errors in processing/applying procedures and policy changes for cost refunds,
- Incorrect survivor benefit payments, and
- Manual computation errors.

Specifically, the errors were identified in the new annuitant, new retired, and changed annuitant accounts. In addition, the late notification of a retiree or annuitant's death resulted in administrative overpayments to deceased retirees. DFAS determined that administrative or process errors resulted from the following root causes:

- Insufficient training related to complex retiree and annuitant accounts, and
- Lack of policies and procedures for establishing new retiree and annuitant accounts following completed system updates.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 26: Military Retirement Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Process Errors Made by the Department Errors for retired and annuitant pay (new annuitants, new retirees, and changed annuitant account) included: ▪ Payments made despite insufficient documentation ▪ Errors in following processing procedures and applying policy changes for Department of Veterans Affairs waiver awards ▪ Untimely application of Dependency and Indemnity Compensation offsets ▪ Systematic computation errors ▪ Manual computation error	Automated the cost refund system to eliminate manual entries for new, changed and unchanged accounts. The System Change Requests reduced the amount of manual processing, eliminate over 50 excel workbooks currently in use and increase timeliness of processing transactions to establish survivor benefit plan elections accurately at the start of retired pay.	Completed June 2020
	Update policies based on the automation process to establish current and future annuity accounts. In addition, establish a training plan to identify all stakeholders affected by the new policy and/or procedures.	December 2020
	Conduct focused based training specifically for the complex cases related to Survivor Benefit Program and Annuity and assess results of training on a recurring basis.	October 2021
	Monitor, on a minimum monthly basis, employees' performance for processing transactions in accordance to established performance standards.	October 2021

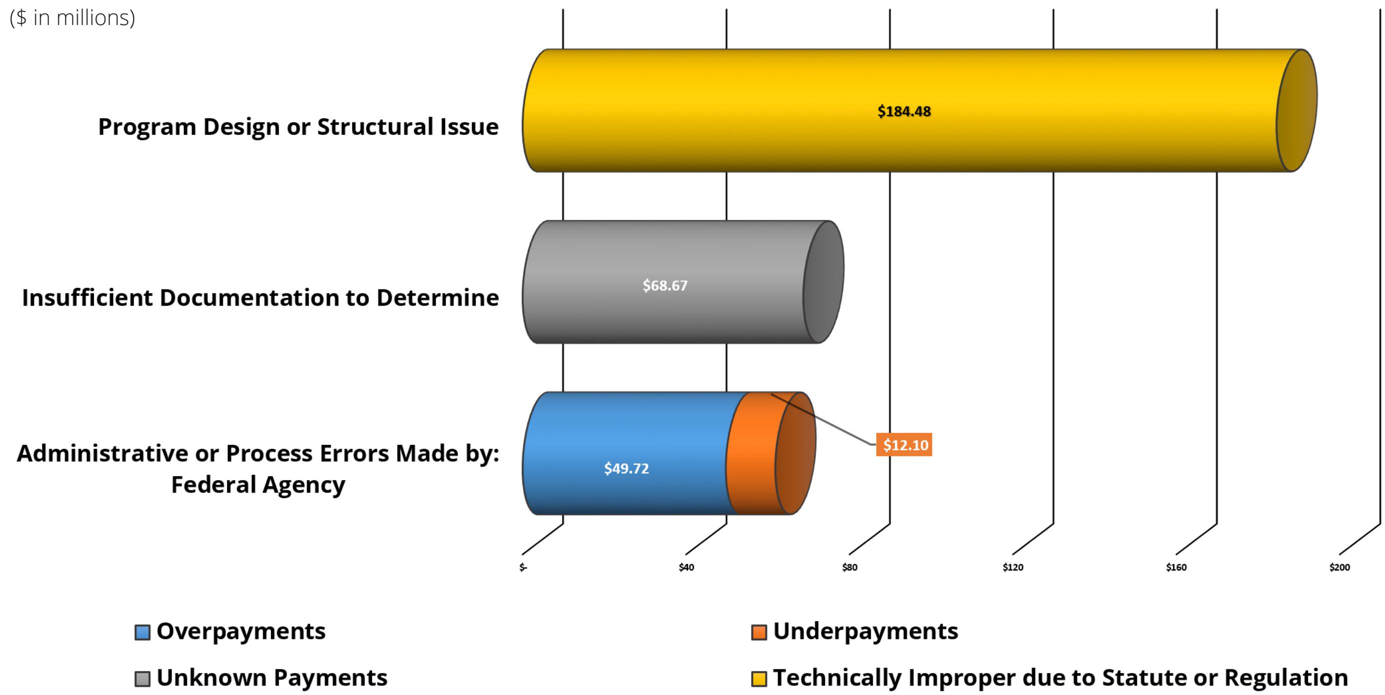
In FY 2020, the Department's corrective actions resulted in major system updates that improved the accuracy of retirement payments by eliminating manual entries required to establish and update retiree and annuitant accounts. The system change requests implemented to automate manual processes significantly reduced the annuitant backlogs (from 20,000 cases in FY 2019 to less than 1,000 in FY 2020) and increased the timeliness of processing transactions. However, since the system updates were not fully implemented until Quarter 3, FY 2020, they had a nominal impact on reducing improper payments, decreasing improper payments only during Quarter 4, FY 2020. In FY 2021, the Department expects to realize further reductions in improper payments as a result of the system updates.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

DoD Travel Pay

In FY 2020, the estimated improper payments for the DoD Travel Pay program were $314.97 million (see Exhibit 27). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 4.27% (+/- 0.34) improper payment rate and an estimated proper processing rate of 95.73%.

Exhibit 27: FY 2020 DoD Travel Pay Estimated Improper Payments by Root Cause



The improper payments identified in the Travel Pay program primarily resulted from travel vouchers paid with no receipts or invalid and/or incorrect receipts for expenses. Specifically, travel expenses for which receipts are required (such as airfare, lodging, and rental cars) were not provided by travelers, and approving or certifying officials approved vouchers with missing or invalid receipts. In accordance with the **Joint Travel Regulations**, receipts must be provided with travel vouchers for all expenses of $75 or more. To be considered valid, a receipt must contain the name of the entity providing the good(s) or service(s), the date(s) that the good(s) or service(s) were provided or purchased, the price of the good(s) or service(s), any tax levied, the total amount due, and an indication that the total amount due was paid. Additional errors identified related to unsigned travel vouchers, meal rates paid incorrectly, and incorrect payments related to permanent change of station expenses. The Department determined that all of these errors resulted from the following root causes:

- Insufficient training for travelers and approving or certifying officials, and
- Inadequate controls in the Defense Travel System (**DTS**) related to voucher documentation requirements

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 28: DoD Travel Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Insufficient Documentation to Determine ▪ Failure to attach receipts to the travel voucher, invalid or incorrect receipts, and illegible receipts.	Completed and implemented statistically valid sampling and estimation plan for three of Army's overseas Finance Offices to improve the reliability of the estimates produced.	Completed March 2020
	Completed enhancements to the Defense Travel System (DTS) to include a pre-payment "audit" feature to determine if the traveler uploaded or attached supporting documentation (i.e., a required receipt) with the claim. Activities included developing detailed user stories and acceptance criteria and establishing a user group to include representatives from DoD Components to review system functionality and system design.	Completed March 2020
Administrative or Process Errors Made by the Department And Program Design or Structural Issue ▪ Incomplete Vouchers ▪ Failure of the traveler and/or approving official to sign and/or date the Travel Voucher prior to submission for approval in DTS.	Completed the Travel Pay improper payment remediation plans that accounted for approximately 95% of the Department's travel pay disbursements processed in the DTS.	Completed March 2020
	Implemented measurable customer service and fiduciary requirements for travel claim processing are included in performance appraisals for all analysts, supervisors, officers in charge an directors.	Completed July 2020
	Implement additional training to address missing airfare receipts and enhance pre-payment validation requirements associated with outstanding travel advances.	November 2020
	Review and update guidance, requiring Auditors that perform payment reviews in Windows Integrated Automated Travel System (WinIATS) to be appointed as Certifying Officers to ensure all vouchers were subject to pre-payment reviews and signed by an appointed Certifying Officer to reduce improper payments associated with missing Approving Official signatures.	December 2020

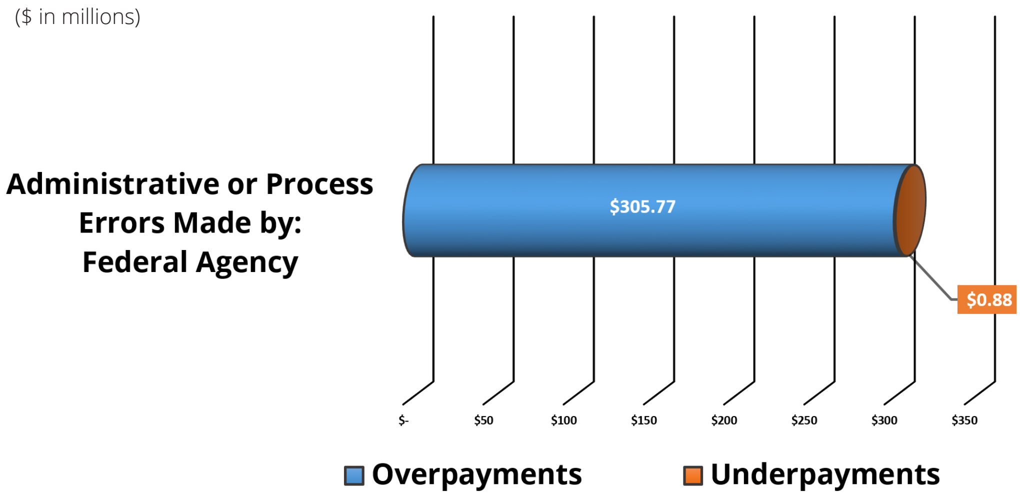
In FY 2020, the Department's corrective actions resulted in a $51.52 million (or 0.49%) reduction in estimated travel improper payments. In addition, the system enhancements implemented within DTS are expected to further reduce the improper payment rate in FY 2021.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Commercial Pay

In FY 2020, the estimated improper payments for the Commercial Pay program were $306.65 million (see Exhibit 29). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 0.08% (+/- 0.08) improper payment rate and an estimated proper processing rate of 99.93%.

Exhibit 29: FY 2020 Commercial Pay Estimated Improper Payments by Root Cause



The improper payments identified in the Commercial Pay program primarily resulted from administrative or process errors such as processing duplicate payments and paying incorrect vendors. The Department determined that these errors resulted from the following root causes:

- Insufficient training for pay technicians, and
- Inadequate controls related to contract refunds.

Exhibit 30: Commercial Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Process Errors Made by the Department Improper payments resulted from the following administrative or process errors: ▪ Duplicate invoice submissions, ▪ Invoices with incorrect Commercial and Government Entity code	Conduct focused training for pay technicians to increase their ability to compute and input claims accurately. This will include updating standard operating procedures on newly implemented controls.	January 2021
	Document the Short Pay process to improve existing controls and implement procedures to ensure that payments made to vendors are accurate. The newly implemented controls will include the development of a tool for enhanced visibility of the workload, which will facilitate a more efficient approach to monitoring the refunds due, thus increasing the timeliness of payments.	March 2021
	Develop a database that will furnish reports highlighting data inaccuracies in MOCAS on the front end of the payment process. This includes adding integrity checks within the Business Activity Monitoring Tool to determine if changes can be made to create exceptions to identified duplicate payments.	March 2021

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

In FY 2020, the Department's corrective actions improved the testing, identification, and reporting of improper payments for the Commercial Pay program, which directly resulted in a $287.40 million increase in estimated improper payments for this program. Specifically, the Department improved the overall accuracy and completeness of the Commercial Pay estimate by implementing audit recommendations made by the DoD OIG that support more accurate improper payment reporting from the Mechanization of Contract Administration Services system, which accounts for more than 50% of the outlays in the Commercial Pay program. The Department also started including government purchase card payments and transportation overcharges reported by the General Services Administration in the program testing populations.

PAYMENT RECAPTURE AUDIT PROGRAM REPORTING

The main objective of the Department's Payment Recapture Audit (PRA) program is to identify, recapture, and reallocate overpayments made by DoD components in support of the DoD mission while simultaneously demonstrating financial stewardship of resources.

In FY 2020, the Department reassessed its PRA program to ensure its compliance with PIIA, resolve three long-standing, open audit recommendations and to substantiate the proper stewardship and execution of the Department's financial resources. Specifically, DoD components were required by a Department memorandum to categorize and document the internal control activities and the specific tools or methods used to identify and recover overpayments. Based on the reassessment, all PIIA programs were reported as "Overpayments Recaptured through Payment Recapture Audits," with the exception the of Military Health Benefits program, which was reported as "Overpayments Recaptured Outside of Payment Recapture Audits" since DHA uses an external contractor to perform its PRA Activities. The reporting of the Military Health Benefits program as "Overpayments Recaptured Outside of Payment Recapture Audits" will be reevaluated in FY 2021.

The Department's PRA program consists of a combination of cost-effective internal controls implemented by DoD Components, PIIA-related initiatives, and recapture activities performed by TRICARE private sector contractors. PRA activities are a synchronization of actions taken by DoD Components with additional collection activities performed by DFAS, DHA, and USACE on behalf of the Department. Moreover, the Department PRA program encompasses all 11 DoD Payment Integrity programs with the following distinctions; PRA programs use the full current Fiscal Year not the sampling periods used in the PIIA compliance audit and the PRA programs use actual identified and recoupment amounts not statistical projections.

PAYMENT RECAPTURE AUDIT PROGRAM REPORTING (CONTINUED)

Exhibit 31: FY 2020 Payment Recapture Audit Reporting

($ in millions)

		Overpayments Recaptured Through Payment Recapture Audits				Overpayments Recaptured Outside of Payment Recapture Audits	
Does This Include Funds Recaptured from a High-Priority Program (Y/N)[1]	Program or Activity	Amount Identified in FY 2020 ($)	Amount Recaptured in FY 2020 ($)[7]	Recapture Rate in FY 2020 (%)	FY 2021 Recapture Rate Target (%)	Amount Identified in FY 2020 ($)	Amount Recaptured in FY 2020 ($)
N	Military Health Benefit[2, 3]	-	-	-	-	$13.85	$295.86
Y	Military Pay[4]	$13.82	$10.73	78%	-	-	-
Y	Civilian Pay[5]	55.17	27.60	50%	-	-	-
N	Military Retirement[6]	322.58	232.19	72%	-	-	-
N	DoD Travel Pay	12.74	9.68	76%	-	-	-
N	Commercial Pay	430.70	417.00	97%	-	-	-
N	USACE Travel Pay	0.22	0.20	91%	-	-	-
N	USACE Commercial Pay	6.96	6.82	98%	-	-	-
	TOTAL	**$842.19**	**$704.22**	**84%**	**84%**	**$13.85**	**$295.86**

Note: Amounts may not sum or calculate exactly due to rounding.

EXHIBIT 31 FOOTNOTES:

1 In accordance with OMB Circular No. A-123, Appendix C, the threshold for designation as a high-priority program for FY 2020 reporting is $2 billion in estimated improper payments reported by the federal agency, regardless of the improper payment rate estimate.

2 The amounts reported for the Military Health Benefits program include recoupments for overpayments identified in payment reviews as well as refunds occurring in the course of routine claim adjustments. The Department is unable to distinguish overpayment recoupments from routine claim adjustments.

3 The Defense Health Agency modified its methodology to mitigate the risk of duplicative reporting of refunds.

4 The Military Pay program includes both in-service collections (i.e., collections from current Military Service members) and out-of-service debts (i.e., collections from individuals not currently employed by the Department) in "Amount Recaptured." In FY 2020, the Military Pay PRA results are combined due to current system limitations, but they will be reported by Military Service in FY 2021.

5 The Civilian Pay program includes only in-service collections in "Amount Recaptured."

6 The amounts identified and recaptured for the Military Retirement program are based on a 100% review of deceased retired and deceased annuitant accounts.

7 "Amount Recaptured" includes debts that have been fully collected.

PAYMENT RECAPTURE AUDIT PROGRAM REPORTING (CONTINUED)

Exhibit 32: FY 2020 Disposition of Funds Recaptured Through Payment Recapture Audits

($ in millions)

Program or Activity	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
Military Pay	-	-	-	$10.73	-	-	-
Civilian Pay	-	-	-	27.60	-	-	-
Military Retirement	-	-	-	232.19	-	-	-
DoD Travel Pay	-	-	-	9.68	-	-	-
Commercial Pay[1]	-	-	-	-	-	-	-
USACE Travel Pay	-	-	-	0.20	-	-	-
USACE Commercial Pay	-	-	-	6.82	-	-	-
TOTAL	**$-**	**$-**	**$-**	**$287.22**	**$-**	**$-**	**$-**

Note: Amounts may not sum or calculate exactly due to rounding.

EXHIBIT 32 FOOTNOTES:

1 Due to system limitations, the Department was not able to report accurate disposition of Commercial Pay recoveries.

Exhibit 33: FY 2020 Aging of Outstanding Overpayments Identified Through Payment Recaptured Audits

($ in millions)

Program or Activity	FY 2020 Remaining Unrecovered	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months - 1 year)	Amount Outstanding (> 1 year)	Amount determined to not be collectable	Percent determined to not be collectable
Military Pay	$3.09	-	$3.09	-	-	-
Civilian Pay	27.57	-	27.57	-	-	-
Military Retirement	90.39	-	90.39	-	-	-
DoD Travel Pay	3.06	$1.09	1.97	-	-	-
Commercial Pay	13.70	2.60	3.10	$8.00	$0.06	0.4%
USACE Travel Pay	0.02	-	0.02	-	-	-
USACE Commercial Pay	0.14	-	0.14	-	-	-
TOTAL	**$137.97**	**$3.69**	**$126.28**	**$8.00**	**$0.06**	**-**

Note: Amounts may not sum or calculate exactly due to rounding.

FRAUD REDUCTION REPORT

Requirements established under the Fraud Reduction and Data Analytics Act of 2015 (**FRDAA**), which were extended by PIIA, direct federal agencies to establish financial and administrative controls to prevent, detect, and respond to fraud risk. In response to these requirements, the Department continued to execute the fraud analytics pilot and issued an inaugural Fraud Risk Management (FRM) Strategy in FY 2020, which is grounded in leading practices identified by the GAO report, "**A Framework for Managing Fraud Risks in Federal Programs.**"

In FY 2020, the Department continued to strengthen its data driven approach to enhance the FRM activities through the expansion of the data analytics pilot to include timecard data. The data analytics pilot helped derive insights into potential fraudulent transactions for research by subject matter experts across the Department. As a result of the analytics performed, the Department identified fraud indicators and developed dashboards and visualizations that included relevant key performance indicators and examples of potential types of high risk employees and vendor information. The data-driven framework leveraged for this pilot will be scaled across the DoD enterprise and expanded to incorporate additional fraud schemes for high-risk areas.

The Department analyzed the fraud risk and fraud control inputs collected from the Components to inform the inaugural FRM Strategy. The FRM Strategy summarizes the imperative and requirements for managing fraud risk in the Department; describes the governance, organization, and core responsibilities of DoD stakeholders; provides an overview of the Fraud Risk Assessment and Fraud Control Assessment processes; and illustrates a timeline of fraud risk management activities. The FRM Strategy, along with a tone-at-the-top letter issued by the **Deputy Chief Financial Officer**, demonstrates the Department's commitment to combat fraud. The Department also established the Fraud Reduction Task Force as a cross-functional tactical team represented by subject matter experts and senior leaders across the Department, responsible for the review of high priority fraud risks and the identification of Department-wide solutions, to include the use of advanced analytics.

The Department continued to leverage the Risk Management and Internal Control Program as a baseline for the oversight of the Department's fraud control environment and to implement the FRM Strategy. In FY 2020, DoD Components continued to assess the risk of fraud as a part of their annual risk assessment process. The fraud risks reported by the Components will be used to update the Department-wide fraud risk register, to include an inventory of fraud risks across the Department. The Department identified potential fraud risks across payroll, beneficiary payments, grants, procurements, large contracts, information technology and services, asset safeguards, purchase and travel cards, and contingency and emergency programs. The Department will update the fraud risk profile that identifies the prioritized list of fraud risks across the Department to include any new risks that needs to be considered or previously reported risk that no longer requires monitoring at the Department level. The Department continued to mature its fraud control environment through the assessment of the current fraud controls with best practices outlined by GAO and OMB. In FY 2020, Components identified specific Department-wide control activities to prevent and detect fraud. The Department will leverage the control activities provided by Components to create a list of "best practices" that can be leveraged to improve the Department's fraud control environment.

The Department issued the annual guidance to communicate "lessons learned" from FY 2019 FRM activities and provided Components with actionable guidance to improve their FRM programs. Throughout the calendar year, the Department engaged with the risk and internal control community to provide effective FRM activities to include guidance on how to improve the fraud control environment across the Department. The Department developed the annual FRM webinar, conducted Fraud Reduction Task Force Office Hours to discuss the fraud analytics pilot and high risk fraud areas, and scheduled periodic RMIC Office Hours to maintain an ongoing dialogue and provide training to Components.

Looking ahead, the Department will continue to lead the coordination of FRM efforts through the annual refresh of the FRM Strategy, Statement of Assurance Execution Handbook, and regular office hours. In response to a recommendation in GAO's report, "**Defense Procurement: Ongoing DoD Fraud Risk Assessment Efforts Should Include Contract Ownership**," the Department will continue to include an assessment of risks

FRAUD REDUCTION REPORT (CONTINUED)

related to contract ownership as part of its ongoing efforts to plan and conduct a Department-wide fraud risk assessment. The Department will continue to provide updated guidance to include leveraging leading practices, trends, identified fraud schemes, and areas of opportunity to help mature the Department-wide fraud risk management program. Inputs obtained from the annual fraud risk assessments and fraud control assessments, as well as insights gained from the data-driven fraud risk monitoring activities will continue to inform focus areas and training topics that will influence the FRM Strategy. The Department will also proactively monitor high-risk fraud areas as identified by key stakeholders including the DoD OIG, GAO, and OMB. In addition, the Department is dedicated to the mitigation of risks associated with contractor ownership and will continue to collaborate across the Department to execute fraud risk strategy and to evaluate related control activities and recommend changes to applicable laws and guidance.

Mississippi Army National Guardsmen unload supplies at Camp Shelby Joint Force Training Center near Hattiesburg, Miss., in preparation to respond to Hurricane Sally, September 15,2020.

PHOTO CREDIT: Army Spc. Victoria Miller

REAL PROPERTY

The Federal Real Property Profile Management System (**FRPP MS**) is the federal government's centralized inventory of real property of data as submitted by each federal agency per requirements of **Executive Order 13327**.

The Department submits its real property data to the FRPP MS each year at the constructed asset level. Pursuant to the Federal Asset Sale and Transfer Act of 2016 (**FASTA**), the GSA made real property data from the FRPP MS accessible beginning on December 15, 2017 in the publicly available **Federal Real Property Public Data Set**. Language in the FASTA specifically excludes the Department's data from being reported in the public data set due to security concerns.

Vintage aircraft fly in formation over Oahu, Hawaii, as part of the 75th commemoration of the end of World War II, Sept. 1, 2020.

Photo credit: Air Force Tech. Sgt. Anthony Nelson

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The **Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015**, which amended the **Federal Civil Penalties Inflation Adjustment Act of 1990** (**28 U.S.C. §2461, note**), requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect.

The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department. The Department's civil monetary penalty adjustments are published as final rules in the Federal Register separately for adjustments pertaining to the U.S. Army Corps of Engineers (USACE) and those related to the remainder of the Department. Exhibit 34 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 85, pages 13047 (**85 FR 13047**) and 35003 (**85 FR 35003**).

Army paratroopers provide supporting fire for an assault force during the night live-fire portion of Exercise Rock Klescman at Poček Training Area, Slovenia, March 3, 2020.
Photo credit: Army Staff Sgt. Jacob Sawyer

Exhibit 34. FY 2020 Civil Monetary Penalty Adjustments for Inflation

Penalty Name/Description	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty ($ amount or range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Unauthorized Activities Directed at or Possession of Sunken Military Craft	National Defense Authorization Act for FY 2005, 10 U.S.C §113, note	2004	2020	$134,807.00	Department of the Navy	85 FR 13047 (March 6, 2020)
Unlawful Provision of Health Care	10 U.S.C. §1094(c)(1)	1985	2020	$11,837.00	Defense Health Agency	85 FR 13047 (March 6, 2020)
Wrongful Disclosure - Medical Records	10 U.S.C. §1102(k)	1986	2020	$6,999.00 (First Offense) $46,663.00 (Subsequent Offense)	Defense Health Agency	85 FR 13047 (March 6, 2020)
Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	10 U.S.C. §2674(c)(2)	1990	2020	$1,928.00	Deputy Chief Information Officer	85 FR 13047 (March 6, 2020)
Violation Involving False Claim	31 U.S.C. §3802(a)(1)	1986	2020	$11,665.00	Office of Inspector General	85 FR 13047 (March 6, 2020)
Violation Involving False Statement	31 U.S.C. §3802(a)(2)	1986	2020	$11,665.00	Office of Inspector General	85 FR 13047 (March 6, 2020)
Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act , 33 U.S.C. §1319(g)(2)(A)	1987	2020	$22,231 per violation, with a maximum of $55,801	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)
Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act , 33 U.S.C. §1344(s)(4)	1987	2020	Maximum of $55,801 per day for each violation	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)
Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	National Fishing Enhancement Act, 33 U.S.C. §2104(e)	1984	2020	Maximum of $24,441 per violation	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)
Violations of the Rivers and Harbors Appropriation Act of 1922	33 U.S.C §555	1986	2020	$5,834 per violation	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)

BIENNIAL REVIEW OF USER FEES

The Department has the authority to establish the charge for a service or thing of value, in accordance with the guidelines that are defined by **31 United States Code §9701**, Fees and Charges for Government Services and Things of Value.

User fees and charges are designed to reduce the burden on taxpayers to finance the portions of activities that provide benefits to identifiable users beyond what is normally provided to the public. By charging the costs of programs or activities to identifiable beneficiaries, user fees and charges can promote economic efficiency and equity just as prices for private goods and services can do in a free and competitive private market. The Department must review their fees on a regular basis to ensure that they, Congress, and stakeholders have complete information. Reviews provide information on whether the fee rates and authorized activities are aligned with program costs and activities.

The **Chief Financial Officers Act of 1990**, and **OMB Circular No. A-25**, User Charges, require Federal agencies to review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to reflect unanticipated changes in costs or market values, and to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services.

The Department is continuing to review and analyze user charges, and continues to work towards developing a formalized process to report any identified findings and results.

GRANT PROGRAMS

Exhibit 35 provides data related to expired federal grant and cooperative agreement awards and balances for which closeout had not yet occurred in accordance with Title 2, Code of Federal Regulations, **section 200.344** for two or more years following the end date of the period of performance (PoP).

Exhibit 35. Unclosed Expired DoD Grant and Cooperative Agreement Awards

Category	2 – 3 years (PoP ended during FY 2018 or FY 2017)	> 3 – 5 years (PoP ended during FY 2016 or FY 2015)	> 5 years (PoP ended during FY 2014 or earlier)
Number of Grants/Cooperative Agreements with Zero Dollar Balances	1,796	988	1,583
Number of Grants/Cooperative Agreements with Undisbursed Balances	1,780	552	391
Total of Amount of Undisbursed Balances	$352,370,405	$95,300,074	$39,389,884

The Department is continuing multiple efforts to improve the closeout process, including through the creation of the intra-agency DoD Grants Closeout Policy working group focused on the development of standard agency-wide policy and guidance. During FY 2020, the working group – which is composed of representatives from the Office of the Under Secretary of Defense for Research and Engineering, Military Departments, Defense Logistics Agency, Defense Contract Management Agency, and the Uniformed Services University of Health Sciences – developed a checklist to track all of the required closeout activities necessary to facilitate completion of the closeout process. Despite these efforts, the Department continues to face a number of challenges in completing the closeout of expired grants and cooperative agreement awards, including lack of adequate staffing (not enough grant officers), difficulty in obtaining timely final financial and performance reports from grantees, and the lack of a centralized system for the management and reporting of grant and cooperative agreement awards. The Department continues to actively research mitigation strategies for these and other challenges.

Marines fire an M72A7 light antitank weapon during training in Kuwait, September 3, 2020.

Photo credit: Army Sgt. Trevor Cullen

APPENDICES

QUICK REFERENCE FOR ACRONYMS AND ABBREVIATIONS USED THROUGHOUT THE REPORT, INCLUDING A GLOSSARY TO DEFINE KEY TERMS

Sibling-Soldiers

Family Within a Family

For Army Maj. Nicholas Fiore, Maj. Elyse Pierre and Capt. Carolyn “Nina” Fiore, family ties bolster their shared commitment to duty and service.

Raised in a military family, all three siblings graduated from the U.S. Military Academy at West Point, New York, before embarking on their Army careers. They recently talked about their upbringing and what military service means to them.

CLICK HERE FOR A LINK TO THE COMPLETE STORY

APPENDIX A: DoD REPORTING ENTITIES - FISCAL YEAR 2020

This appendix provides a list of the DoD reporting entities for the purposes of the consolidated/combined financial statements.

DoD Reporting Entities Designated to Prepare and Issue Financial Statements Annually as Mandated by OMB Bulletin No. 19-03

DOD Entity	Financial Statements
Department of Air Force, General Fund	**https://www.saffm.hq.af.mil/FM-Resources/Air-Force-Annual-Financial-Statement/**
Department of Air Force, Working Capital Fund	**https://www.saffm.hq.af.mil/FM-Resources/Air-Force-Annual-Financial-Statement/**
Department of the Army, General Fund	**https://www.asafm.army.mil/Audit/**
Department of the Army, Working Capital Fund	**https://www.asafm.army.mil/Audit/**
Department of the Navy, Working Capital Fund	**https://www.secnav.navy.mil/fmc/fmo/Pages/Financial-Reports.aspx**
Military Retirement Fund	**https://comptroller.defense.gov/Portals/45/Documents/afr/fy2020/DoD_Components/2020_AFR_MRF.pdf**
U.S. Army Corps of Engineers Civil Works Program	**https://www.publications.usace.army.mil/USACE-Publications/Miscellaneous/**
U.S. Marine Corps, General Fund	**https://www.hqmc.marines.mil/pandr**
U.S. Navy, General Fund	**https://www.secnav.navy.mil/fmc/fmo/Pages/Financial-Reports.aspx**

DoD Reporting Entities Designated to Prepare and Issue Financial Statements Annually as Mandated by OMB Bulletin No. 19-03

DOD Entity	Financial Statements
Consolidated Defense Health Programs	**https://www.health.mil/About-MHS/OASDHA**
Defense Commissary Agency, General Fund	**https://www.commissaries.com/our-agency/about-DeCA/annual-financial-report**
Defense Commissary Agency, Working Capital Fund	**https://www.commissaries.com/our-agency/about-DeCA/annual-financial-report**
Defense Contract Audit Agency	**https://www.dcaa.mil/About-DCAA/Audited-Financial-Statements/**
Defense Finance and Accounting Service, Working Capital Fund	**https://www.dfas.mil/Pressroom/aboutDFAS/**
Defense Health Agency - Contract Resource Management	**https://www.health.mil/About-MHS/OASDHA**
Defense Information Systems Agency, General Fund	**https://www.disa.mil/About/Legal-and-Regulatory/Budget-and-Performance-Reports**
Defense Information Systems Agency, Working Capital Fund	**https://www.disa.mil/About/Legal-and-Regulatory/Budget-and-Performance-Reports**
Defense Logistics Agency National Defense Stockpile Trust Fund	**https://www.dla.mil/HQ/Finance/Offers/FinancialReports/**
Defense Logistics Agency, General Fund	**https://www.dla.mil/HQ/Finance/Offers/FinancialReports/**

DoD Reporting Entities Designated to Prepare and Issue Financial Statements Annually as Mandated by OMB Bulletin No. 19-03 (Continued)

DOD Entity	Financial Statements
Defense Logistics Agency, Working Capital Fund	**https://www.dla.mil/HQ/Finance/Offers/FinancialReports/**
Department of Defense Office of Inspector General	**https://www.dodig.mil/reports.html/Article/2213280/fiscal-year-2020-agency-financial-report/**
DoD Medicare-Eligible Retiree Health Care Fund	**https://comptroller.defense.gov/Portals/45/Documents/afr/fy2020/DoD_Components/2020_AFR_MERHCF.pdf**
U.S. Special Operations Command	**https://www.socom.mil/Pages/pressreleases.aspx**
U.S. Transportation Command	**https://www.ustranscom.mil/cmd/audit.cfm**

Other DoD Reporting Entities Consolidated in DoD-wide Financial Statements

Agency-Wide Component
Chemical Biological Defense Program
Defense Advanced Research Projects Agency
Defense Contract Management Agency
Defense Finance and Accounting Service, General Fund
Defense Security Cooperation Agency
Defense Technical Information Center
Defense Threat Reduction Agency
Department of Defense Education Activity
DoD Component Level Accounts
Joint Chiefs of Staff
Medicare – Eligible Retiree Health Care Fund Payment
Military Retirement Fund Payment
Missile Defense Agency
Other Defense Activities - Burden Sharing Account by Foreign Allies, Defense
Other Defense Activities - Business Transformation Agency
Other Defense Activities - Defense Acquisition University
Other Defense Activities - Defense Cooperation Account
Other Defense Activities - Defense Counter-intelligence and Security Agency, Working Capital Fund
Other Defense Activities - Defense Gift Fund

Other DoD Reporting Entities Consolidated in DoD-wide Financial Statements (Continued)

Other Defense Activities - Defense Human Resources Activity
Other Defense Activities - Defense Media Activity
Other Defense Activities - Defense Prisoner of War/Missing In Action Accounting Agency
Other Defense Activities - Defense Technology Security Administration
Other Defense Activities - Department of Defense Education Benefits Fund
Other Defense Activities - Director, Operational Test and Evaluation
Other Defense Activities - Emergency Response Fund, Defense
Other Defense Activities - Homeowners Assistance Fund
Other Defense Activities - Host Nation Support for U.S. Relocation Activities, Defense
Other Defense Activities - Military Housing Privatization Initiative
Other Defense Activities - Mutually Beneficial Activities Defense Wide
Other Defense Activities - National Security Education Trust Fund
Other Defense Activities - Office of Economic Adjustment
Other Defense Activities - Support for U.S. Relocation to Guam Activities
Other Defense Activities - Voluntary Separation Incentive Trust Fund
Other Defense Activities Working Capital Funds
Other TI-97 Funds Provided to the Air Force by the Office of the Secretary of Defense
Other TI-97 Funds Provided to the Army by the Office of the Secretary of Defense
Other TI-97 Funds Provided to the Navy by the Office of the Secretary of Defense
Washington Headquarters Services

APPENDIX B: ACRONYMS

Acronym	Definition
ACF	Alternate Care Facilities
ACWA	Assembled Chemical Weapons Alternatives
ADA	Antideficiency Act
AEAN	Aggregate Entry-Age Normal
AECA	Arms Export Control Act of 1976
AETC	Air Education and Training Command
AFB	Air Force Base
AF-IPPS	Air Force Integrated Personnel and Pay System
AFR	Agency Financial Report
APP	Annual Performance Plan
APSR	Accountable Property System of Record
ASC	Accounting Standards Codification
ASD	Assistant Secretary of Defense
ASD(S)	Assistant Secretary of Defense for Sustainment
AU	Assessable Unit
BAH	Basic Allowance for Housing
BD/DR	Building Demolition and Debris Removal
BEA	Business Enterprise Architecture
BLB	Barksdale, Langley, and (Joint Base Anacostia) Boiling
BRAC	Base Realignment and Closure
BRS	Blended Retirement System
CAP	Contractor Acquired Property
CAP	Corrective Action Plan
CAPE	Cost Assessment and Program Evaluation
CARES	Coronavirus Aid, Relief, and Economic Security
CARS	Central Accounting Reporting System
CBDP	Chemical and Biological Defense Program
CBY	Charge Back Year
CDC	Centers for Disease Control
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFIUS	Committee on Foreign Investment in the United States
CHCBP	Continued Health Care Benefits Program
CIO	Chief Information Officer
CIP	Construction in Progress
CJCS	Chairman of the Joint Chiefs of Staff
CMA	Chemical Materials Agency
CMC	Commandant of the Marine Corps
CMO	Chief Management Officer
CNGB	Chief of the National Guard Bureau

APPENDIX B: ACRONYMS

Acronym	Definition
CNO	Chief of Naval Operations
COLA	Cost of Living Adjustment
COTS	Commercial Off-The-Shelf
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CPIM	Consumer Price Index Medical
CSA	Chief of Staff of the Army
CSAF	Chief of Staff of the Air Force
CSO	Chief of Space Operations
CSRS	Civil Service Retirement System
DAF-CJIC	Department of the Air Force Criminal Justice Information Cell
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DATA Act	Digital Accountability and Transparency Act of 2014
DAU	Defense Acquisition University
DAWIA	Defense Acquisition Workforce Improvement Act
DBS	Defense Business Systems
DCHRMS	Defense Civilian Human Resource Management System
DCMA	Defense Contract Management Agency
DCSA	Defense Counterintelligence and Security Agency
DEAMS	Defense Enterprise Accounting and Management System
DeCA	Defense Commissary Agency
DERP	Defense Environmental Restoration Program
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DFC	Development Finance Corporation
DHA	Defense Health Agency
DHP	Defense Health Programs
DHRA	Defense Human Resources Activity
DHS-CRM	Defense Health Agency - Contract Resource Management
DIB	Defense Industrial Base
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repairs
DMA	Defense Media Activity
DoD	Department of Defense
DoDI	Department of Defense Issuance
DoDEA	Department of Defense Education Activity
DOL	Department of Labor

APPENDIX B: ACRONYMS

Acronym	Definition
DON	Department of the Navy
DoS	Department of State
DOTE	Director Operational Test and Evaluation
DPA	Defense Production Act
DPAA	Defense POW/MIA Accounting Agency
DSCA	Defense Security Cooperation Agency
DTIC	Defense Technical Information Center
DTRA	Defense Thread Reduction Agency
DTS	Defense Travel System
DTSA	Defense Technology Security Administration
DW	Defense-wide
E&DL	Environmental and Disposal Liability
E2E	End-to-End
EBF	Education Benefits Fund
EBS	Enterprise Business System
EL	Environmental Liabilities
ELC	Entity Level Controls
EO	Executive Order
EOP	Executive Office of the President
EOU	Excess, Obsolete, and Unserviceable
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FASTA	Federal Asset Sale and Transfer Act of 2016
FBwT	Fund Balance with Treasury
FCI	Facility Condition Index
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employees Health Benefits
FEMA	Federal Emergency Management Agency
FERC	Federal Energy Regulatory Commission
FERS	Federal Employees Retirement System
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFCRA	Families First Coronavirus Response Act
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Centers

APPENDIX B: ACRONYMS

Acronym	Definition
FHIF	Family Housing Improvement Fund
FIAR	Financial Improvement and Audit Remediation
FISCAM	Federal Information System Controls Audit Manual
FLTCIP	Federal Long Term Care Insurance Program
FM	Financial Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FR	Federal Register
FR	Financial Report of the U.S. Government
FRDAA	Fraud Reduction and Data Analytics Act of 2015
FRM	Fraud Risk Management
FRPP MS	Federal Real Property Profile Management System
FSA	Family Separation Allowance
FUSRAP	Formerly Utilized Sites Remedial Action Program
FY	Fiscal Year
FYDP	Future Years Defense Program
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GC	General Counsel
GCSS-A	Global Combat Support System – Army
GCSS-MC	Global Combat Support System – Marine Corps
GDL	Government Direct Loan
GE	General Equipment
GF	General Fund
GFEBS	General Fund Enterprise Business System
GFP	Government Furnished Property
GMRA	Government Management Reform Act of 1994
GPP&E	General Property Plant & Equipment
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GSA	General Services Administration
GT&C	General Terms and Conditions
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
HR	Human Resources
I&RP	Inventory and Related Property
IBS	Integrated Battle Station
ICAM	Identity, Credential, and Access Management
ICO	Internal Control over Operations

APPENDIX B: ACRONYMS

Acronym	Definition
ICOFR	Internal Control over Financial Reporting
ICOFS	Internal Control over Financial Systems
ICU	Intensive Care Unit
IG	Inspector General
IP	Improper Payments/Improperly Paid
IPPS-A	Integrated Personnel Pay System – Army
IRP	Installation Restoration Program
IT	Information Technology
IUS	Internal Use Software
JCS	Joint Chiefs of Staff
JSF	Joint Strike Fighter
KSD	Key Supporting Documentation
LAC	Latest Acquisition Cost
LLC	Limited Liability Company
LMP	Logistics Modernization Program
LP	Limited Partnership
MAC	Moving Average Cost
MCSC	Managed Care Support Contracts
MDA	Missile Defense Agency
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MHS	Military Health System
MILCON	Military Construction
MMRP	Military Munitions Response Program
MRE	Meal, Ready to Eat
MRF	Military Retirement Fund
MRHB	Military Retirement Health Benefits
MTF	Military Treatment Facilities
MUHIF	Military Unaccompanied Housing Improvement Fund
MWR	Morale, Welfare, and Recreation
N/A	Not Applicable
NAF	Nonappropriated Fund
NAFI	Nonappropriated Fund Instrumentality
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDBOP	National Defense Business Operations Plan
NDS	National Defense Strategy
NDU	National Defense University
NFR	Notice of Findings and Recommendations

APPENDIX B: ACRONYMS

Acronym	Definition
No FEAR Act	Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002
No.	Number
NOAA	National Oceanic and Atmospheric Administration
NOC	Notice of Overcharges
NOI	Net Operating Income
NP2	Navy Personnel and Pay System
NPV	Net Present Value
NRV	Net Realizable Value
O&M	Operation and Maintenance
OACT	Office of the Actuary
OCMO	Office of the Chief Management Officer
ODCFO	Office of the Deputy Chief Financial Officer
ODNI	Office of the Director of National Intelligence
OEA	Office of Economic Adjustment
OFR	Office of the Federal Register
OHA	Overseas Housing Allowance
OIG	Office of the Inspector General
OIRA	Office of Information and Regulatory Affairs
OM&S	Operating Material and Supplies
OMB	Office of Management and Budget
OPEB	Other Post-employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P2P	Procure-to-Pay
PFAS	Per- and Polyfluoroalkyl Substances
PII	Personally Identifiable Information
PIIA	Payment Integrity Information Act of 2019
PoP	Period of Performance
PP	Proper Payment / Properly Paid
PP&E	Property, Plant and Equipment
PPA	Prompt Payment Act
PPBE	Planning, Programming, Budgeting, and Execution
PPE	Personal Protective Equipment
PRA	Payment Recapture Audit
PSA	Principal Staff Assistant
PV	Present Value
RACER	Remedial Action Cost Engineering Requirements

APPENDIX B: ACRONYMS

Acronym	Definition
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test and Evaluation
RMIC	Risk Management and Internal Controls
RSI	Required Supplementary Information
S/L	Straight Line Method
SAA	Security Assistance Accounts
SAO	Senior Accountable Official
SARA	Superfund Amendments and Reauthorization Act of 1986
SBR	Statement of Budgetary Resources
SC	Security Cooperation
SCNP	Statement of Changes in Net Position
SDP	Savings Deposit Program
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SMC	Senior Management Council
SMS	Sustainment Management System
SNC	Statement of Net Cost
SOA	Statement of Assurance
SOC	System and Organizational Control
SSAE	Statement of Standards for Attestation Engagements
STAMIS	Standard Army Management Information Systems
TFM	Treasury Financial Manual
TI-97	The Treasury Index 97
TICMS	Theatre Integrated Combat Munitions System
TNC	Treasury Nominal Coupon
TPharm	TRICARE Pharmacy
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TSP	Thrift Savings Plan
TYA	TRICARE Young Adults
U.S.	United States
U.S.C.	United States Code
USACE	United States Army Corps of Engineers
USCYBERCOM	United States Cyber Command
USD	Under Secretary of Defense
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
USFHP	United States Family Health Plan

APPENDIX B: ACRONYMS

Acronym	Definition
USNS	United States Naval Ship
USSF	United States Space Force
USSGL	United States Standard General Ledger
USSOCOM	United States Special Operations Command
VCJCS	Vice Chairman of the Joint Chiefs of Staff
VSI	Voluntary Separation Incentive
WCF	Working Capital Fund
WHS	Washington Headquarters Services
WRSA	War Reserve Stocks for Allies

APPENDIX C: GLOSSARY OF TERMS

A

ACCRUAL BASIS – A system of accounting in which revenues are recorded when earned and expenses are recorded when goods are received or services are performed, even though the actual receipt of revenues and payment for goods or services may occur, in whole or in part, at a different time.

ACTUARIAL COST METHOD – A recognized actuarial technique used for establishing the amount and the incidence of employer contributions or accounting charges for pension costs under a pension plan.

AGGREGATE ENTRY-AGE NORMAL METHOD – A system of applying the entry age normal actuarial cost methodology using aggregate population models or groups instead of applying it individual by individual.

AMORTIZATION – The gradual extinguishment of any amount over a period of time through a systematic allocation of the amount over a number of consecutive accounting periods such as the retirement of a debt by serial payments to a sinking fund.

ANTIDEFICIENCY ACT – A legislation enacted by Congress to prevent the incurring of obligations or the making of expenditures (outlays) in excess of amounts available in appropriations or funds, to fix responsibility within an agency for the creation of any obligation or the making of any expenditure in excess of apportionment or reapportionment or in excess of other subdivisions established pursuant to 31 United States Code (U.S.C.) §§ 1341, 1342, and 1517, and to assist in bringing about the most effective and economical use of appropriations and funds.

B

BLENDED RETIREMENT SYSTEM – A new retirement system that took effect on January 1, 2018. It combines elements of the legacy retirement system with benefits similar to those offered in many civilian 401(k) plans. The opt-in period for the majority of service members closed Dec. 31, 2018.

BUDGET AUTHORITY – The total amount of all obligation budget authority including unobligated balances carried forward, adjustments to unobligated balances carried forward, appropriated amounts, and other budgetary resources, as of the reported date.

BUDGETARY BASIS OR BUDGETARY ACCOUNTING – A system that measures and controls the use of resources according to the purposes for which budget authority was enacted and that records receipts and other collections by source. It tracks the use of each appropriation for specified purposes in separate budget accounts through the various stages of budget execution from appropriation to apportionment and allotment to obligation and eventual outlay.

BUDGETARY RESOURCES – The forms of authority given to an agency allowing it to incur obligations. Budgetary resources include the following: new budget authority, unobligated balances, direct spending authority, and obligation limitations.

APPENDIX C: GLOSSARY OF TERMS

C

CAPITALIZATION THRESHOLD – The dollar amount that determines the proper financial reporting of an asset. To capitalize is to record and carry forward into one or more future periods any expenditure the benefits or process from which will then be realized.

COMBATANT COMMANDS – Also referred to as DoD Components, each have a geographic or functional mission that provides command and control of military forces in peace and war. The 11 Commands are are Africa, Central, Cyber, European, Indo-Pacific, Northern, Southern, Space, Special Operations, Strategic, and Transportation Command.

COMMITMENT – An administrative reservation of funds based on firm procurement requests, unaccepted customer orders, Directives, and equivalent instruments.

COMPLETENESS – Means that all equipment meeting the definition of military equipment is included in the valuation. The Acquisition community asserts for the Property, Plant & Equipment line item on the balance sheet that all programs that should be reported, have been recorded and reported.

CONTINGENCY – An existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm a gain (i.e., acquisition of an asset or reduction of a liability) or a loss (i.e., loss or impairment of an asset or the incurrence of a liability).

CONTRACTS DISPUTES ACT – An Act that ensures uniform procedures for negotiating and litigating Government contract disputes. The litigation process under the Act is transparent and definitive, ensuring fairness and predictability. The government and the contractor are encouraged to negotiate claims and other disputes in good faith at the lowest possible level.

CONTRACT HOLDBACKS – Are unreimbursed contractor costs not funded through progress payments. The amounts are held back, rather than paid as progress payments, to provide assurance that the work will be completed as required by the contract.

CUMULATIVE RESULTS OF OPERATIONS – The net difference between expenses, losses, and transfers out from the inception of an agency or activity, and financing sources (i.e., appropriations and revenue) and gains from the inception of an agency or activity (whether financed from appropriations, transfers in, revenues, reimbursements, or any combination of the four) to the reporting date (when financial statements are prepared).

D

DEDICATED COLLECTIONS – Are specifically identified revenues, provided to the government by nonfederal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the government’s general revenues.

APPENDIX C: GLOSSARY OF TERMS

D

DEEMED COST – Amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances.

DEFENSE WORKING CAPITAL FUND – A revolving fund using a business-like buyer-and seller approach with a goal of breaking even over the long term. Stabilized rates or prices are generally established each fiscal year and adjusted for sales to customers to include an amount for unfunded civilian retirement and post-retirement health benefits costs. The DWCF was established on December 11, 1996, upon the reorganization of the former Defense Business Operations Fund.

DEFINED BENEFIT PLAN – Promises a specified monthly benefit at retirement stated as an exact dollar amount, such as $100 per month at retirement or, more commonly, a benefit calculated through a plan formula that considers such factors as salary and service - for example, 1 percent of average salary for the last 5 years of employment for every year of service with an employer. The benefits in most traditional defined benefit plans are protected, within certain limitations, by federal insurance provided through the Pension Benefit Guaranty Corporation.

DEFINED CONTRIBUTION PLAN – Does not promise a specific amount of benefits at retirement. In these plans, the employee or the employer (or both) contribute to the employee's individual account under the plan, sometimes at a set rate, such as 5 percent of earnings annually. These contributions generally are invested on the employee's behalf. The employee will ultimately receive the balance in their account, which is based on contributions plus or minus investment gains or losses. The value of the account will fluctuate due to the changes in the value of the investments. Examples of defined contribution plans include 401(k) plans, 403(b) plans, employee stock ownership plans, and profit-sharing plans.

DEPARTMENT OF DEFENSE – Includes the Office of the Secretary of Defense, Joint Chiefs of Staff, DoD Office of the Inspector General, Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components.

DEPRECIATION – The systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

DISCLAIMER OF OPINION – In a disclaimer of opinion, the auditor does not express an opinion on the subject matter. A disclaimer of opinion is appropriate when the auditor has not performed an audit sufficient in scope to enable them to express an opinion. This usually occurs when the auditor is not provided with sufficient information to enable them to express an opinion.

DOD COMPONENT – Includes OSD, the Chairman, Joint Chiefs of Staff and the Joint Staff, the DoD Inspector General, the Military Departments including the Coast Guard when assigned to the Department of the Navy, the Defense Agencies, DoD Field Activities, the Combatant Commands, Washington Headquarters Services, the Uniformed Services University of the Health Sciences, and all nonappropriated fund instrumentalities.

APPENDIX C: GLOSSARY OF TERMS

E

ENVIRONMENTAL DISPOSAL LIABILITIES – An expected future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events.

EUROPEAN REASSURANCE AND DETERRENCE INITIATIVES – Enables the United States to enhance the U.S. deterrence posture, increase the readiness and responsiveness of U.S. forces in Europe, support the collective defense and security of NATO allies, and bolster the security and capacity of U.S. allies and partners.

EXCHANGE REVENUE – Inflows of resources to a governmental entity that the entity has earned which arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return.

EXISTENCE – Verifies that documentation is available at the enterprise-level to demonstrate that an item exists. The Acquisition and/or Logistics communities assert that the military equipment reported by DoD does exist and has proof to support that assertion.

F

FIDUCIARY ASSETS – Assets collected, received, held, or disposed on behalf of an individual or non-Federal entity. These assets are not recognized in the balance sheet.

FUND BALANCE WITH TREASURY – An asset account that shows the available budget spending authority of federal agencies. Collections and disbursements by agencies increase or decrease the balance in the account.

G

GENERAL PROPERTY, PLANT, AND EQUIPMENT – Any property, plant, and equipment used in providing goods or services which typically has one or more of the following characteristics: it could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but is used to produce goods or services, or to support the mission of the entity, or it is used in business-type activities, or it is used by entities in activities whose costs can be compared to those of other entities performing similar activities.

H

No entries

I

IMPROPER PAYMENT – OMB Circular No. A-123, **Appendix C** defines an "improper payment" as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients (including inappropriate denials of payment or service, any payment that

APPENDIX C: GLOSSARY OF TERMS

I

does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). Additionally, when an agency's review is unable to discern whether a payment was proper as the result of insufficient or lack of documentation, the payment must be considered an improper payment.

IMPUTED FINANCING – Financing provided to the reporting entity by another Government entity covering certain costs incurred by the former. For example, part of Federal employee retirement benefits have been paid by the Government's central personnel office. A reporting entity would recognize the full accruing cost of the benefits as well as the imputed financing so provided.

INTERDICTING – Intercepting and preventing the movement of a person or commodity.

INTERNAL CONTROLS – A process, effected by an agency's management and other personnel, designed to provide reasonable assurance that the objectives of the agency are being achieved in the following categories: effectiveness and efficiency of operations including the use of the entity's resources, reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use, and compliance with applicable laws and regulations. Internal controls consist of the control environment, risk assessment, control activities, information and communication, and monitoring. A necessary implication or subset of these objectives is the safeguarding of agency assets against unauthorized acquisition, use, or disposition. Internal controls include processes, effected by an agency's management and other personnel, designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of the agency's asset.

INVENTORY – Any tangible personal property that is held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee.

J

No entries

K

No entries

L

LAND – Is the solid part of the surface of the earth. Excluded from the definition of land are the natural resources (that is, depletable resources such as mineral deposits and petroleum, renewable resources such as timber, and the outer-continental shelf resources) related to land.

APPENDIX C: GLOSSARY OF TERMS

L

LEGACY PLATFORMS – Also called a legacy operating system, is an operating system no longer in widespread use, or that has been supplanted by an updated version of earlier technology. Many enterprises that use computers have legacy platforms, as well as legacy applications, that serve critical business needs.

LINEAR STRUCTURE – A type of organizational structure where every employee has only one superior (manager), the main bond between organizational levels is hierarchy, there is no specialization of managers, and usually formalization is low and centralization high.

M

MANDATORY APPROPRIATION – Also called direct spending, is federal spending that goes to programs for which the authorizing legislation itself creates budget authority. It includes funding for most major entitlement programs. Some entitlements are funded in annual appropriation acts, but the amounts provided are controlled by the authorization law that established the entitlement. The authorization laws that provide direct spending are typically permanent, but some major direct spending programs, such as the Supplemental Nutrition Assistance Program, require periodic renewal.

MATERIAL WEAKNESS – 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.

MATERIEL – A unique term relating to military force management, and includes items such as ships; tanks; self-propelled weapons; aircraft; and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities.

MILITARY DEPARTMENTS – Departments of the Army, Navy (Marine Corps is a component), and Air Force (Space Force is a component).

MOVING AVERAGE COST METHOD – An inventory costing method where the average cost of each inventory item in stock is re-calculated after each inventory purchase.

N

NET POSITION – Discusses the federal government's financial position (assets minus liabilities) at the end of the current and recent fiscal years, and how the financial position changed during the current fiscal year.

NONEXCHANGE REVENUE – Inflows of resources to the Government that the Government demands or that it receives by donations. The inflows that it demands include taxes, duties, fines, and penalties.

APPENDIX C: GLOSSARY OF TERMS

N

NON-FRIABLE ASBESTOS (CATEGORY I NONFRIABLE ASBESTOS CONTAINING MATERIAL (ACM) – Refers to any material containing more than 1 percent asbestos as determined using the method specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy, that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure.

NON-STATE ACTORS – Are non-sovereign entities that exercise significant economic, political, or social power and influence at a national, and in some cases international, level. There is no consensus on the members of this category, and some definitions include trade unions, community organizations, religious institutions, ethnic groupings, and universities in addition to the players outlined above.

O

OFFSETTING COLLECTIONS – Collections from the public that result from business-type or market oriented activities and collections from other Government accounts. These collections are deducted from gross disbursements in calculating outlays, rather than counted in governmental receipts. Some offsetting collections are credited directly to appropriation or fund accounts; others, called offsetting receipts, are credited to receipt accounts. The authority to spend offsetting collections is a form of budget authority.

P

PERMANENT INDEFINITE APPROPRIATION – Authorizations which remain in effect until changed by the Congress.

PROPRIETARY ACCRUAL BASIS – A process that supports accrual accounting and financial reporting that attempts to show actual financial position and results of operations by accounting for assets, liabilities, net position, revenues, and expenses.

Q

QUALIFIED OPINION – States that the subject matter is presented fairly with the established criteria in all material respects except for a certain matter. A qualified opinion states that "except for" the effects of the matter to which the qualification relates, the subject matter of the assertion complies with the established criteria.

R

REMEDIATION – The process of improving a situation or correcting a problem.

REVOLVING FUND – A fund consisting of permanent appropriation and expenditures of collections, from both the public and other Governmental agencies and accounts, that are earmarked to finance a continuing cycle of business-type operations.

APPENDIX C: GLOSSARY OF TERMS

S

SECURITY ASSISTANCE – A group of programs, authorized under Title 22 authorities, by which the United States provides defense articles, military education and training, and other defense-related services by grant, loan, credit, cash sales, or lease, in furtherance of national policies and objectives.

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

SORTIE – A deployment or dispatch of one military unit, be it an aircraft, ship, or troops, from a strongpoint.

STATEMENT OF BUDGETARY RESOURCES – Reports information on how budgetary resources were made available and their status as of and for the year ended.

STATEMENT OF STANDARDS FOR ATTESTATION ENGAGEMENT NO. 18 – A Generally Accepted Auditing Standard produced and published by the American Institute of Certified Public Accountants Auditing Standards Board.

STRAIGHT LINE METHOD – A method where the cost or other basis of the property less its estimated salvage value is deductible in equal annual amounts over the period of the estimated useful life of the property.

T

No entries

U

UNEXPENDED APPROPRIATIONS – Represent amounts of authority at the reporting date that are either unobligated and have not lapsed, rescinded, or withdrawn; or obligated, but not yet expended (e.g., undelivered orders).

UNMODIFIED AUDIT OPINION – When the auditor concludes that the subject matter of the audit (as of the specified date) is in conformity with established criteria (e.g., GAAP) and that no deficiencies exist. An unqualified opinion is sometimes referred to as a "clean opinion."

V

No entries

APPENDIX C: GLOSSARY OF TERMS

W

WORKING CAPITAL FUNDS – A type of intragovernmental revolving fund that operates as a self-supporting entity that conducts a regular cycle of businesslike activities. These funds function from the fees charged for the services they provide consistent with their statutory authority.

X

No entries

Y

No entries

Z

No entries

APPENDIX D: SAA FINANCIAL STATEMENTS AND NOTES

SAA FINANCIAL STATEMENTS AND NOTES

Congress authorizes and appropriates funds for the United States Government (USG)-financed portions of Security Assistance (SA). Congress has a keen interest in the sale and transfer of defense articles and services to foreign countries and international organizations. Although several Executive Branch agencies (such as the National Security Council, the Department of the Treasury, the Department of State, and the Office of Management and Budget) have responsibilities related to SA, the Defense Security Cooperation Agency (DSCA) leads the broader U.S. security cooperation enterprise in its efforts to train, educate, advise, and equip foreign partners.

In accordance with **22 U.S.C. §2752**, the Secretary of State is responsible for continuous supervision and general direction of SA programs. The DSCA is the Department of Defense (DoD) lead agency for the execution of security assistance functions, under Executive Order 11958, "Administration of Arms Export Controls." SA programs are executed by the DoD Components on behalf of the Executive Office of the President and the Department of State.

The financial statements and explanatory notes in this appendix pertain to the following accounts, collectively referred to as the "Security Assistance Accounts" (SAA), which are granted to the Executive Office of the President (EOP) pursuant to the **Arms Export Control Act**, as amended:

- Foreign Military Sales (**FMS**) Trust Fund
- International Military Education and Training (**IMET**) Account
- Foreign Military Financing (**FMF**) Program Account
- Foreign Military Financing, Direct Loan Program Account
- Foreign Military Loan Liquidating Account
- Foreign Military Financing, Direct Loan Financing Account
- Military Debt Reduction Financing Account
- Special Defense Acquisition Fund

Though the Department of Defense (DoD) prepares the financial statements and notes for these accounts, they are not consolidated into the DoD Agency-wide financial statements. Instead, the SAA financial statements and notes are consolidated directly into the **Financial Report of the United States Government** as a separate stand-alone Significant Reporting Entity in accordance with Treasury Financial Manual Volume 1, Part 2, Chapter 4700, **Appendix 1a**.

The SAA financial statements are not currently under a financial statement audit but are undergoing various audit readiness efforts in preparation for the financial statement audit beginning in fiscal year 2022.

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)	2019 (UNAUDITED)
Assets (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	$42,697.7	$41,158.5
3. Accounts Receivable (Note 6)	96.5	2.3
5. Total Intragovernmental Assets	$42,794.2	$41,160.8
B. Cash and Other Monetary Assets (Note 4)	34,094.7	37,110.4
C. Accounts Receivable, Net (Note 6)	(106.5)	6.7
D. Loans Receivable (Note 7)	2,407.1	3,140.0
E. Inventory and Related Property, Net (Note 8)	650.3	288.2
H. Other Assets (Note 10)	6,209.9	41,578.8
2. TOTAL ASSETS	$86,049.7	$123,284.9
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
A. Intragovernmental:		
1. Accounts Payable	$572.5	$667.5
2. Debt (Note 12)	1,756.5	3,114.4
3. Other Liabilities (Notes 15 and 17)	683.5	1,021.1
Total Intragovernmental Liabilities	$3,012.5	$4,803.0
B. Accounts Payable	1,525.3	$2,281.8
F. Other Liabilities (Notes 15 and 17)	134,755.0	103,371.2
Total Liabilities	$139,292.8	$110,456.0
Commitments and Contingencies (Note 17)		
Net Position (Consolidated Totals)		
Unexpended Appropriations - Other Funds	$7,244.4	$6,695.8
Cumulative Results of Operations - Other Funds	(60,487.5)	6,133.1
Total Net Position	$(53,243.1)	$12,828.9
Total Liabilities and Net Position	$86,049.7	$123,284.9

The accompanying notes are an integral part of these statements.

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED STATEMENT OF NET COST
FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)	2019 (UNAUDITED)
1. Program Costs		
A. Gross Costs	$158,662.3	$38,609.8
B. (Less: Earned Revenue)	$(46,593.0)	$(45.7)
Net Cost of Operations	$112,069.3	$38,564.1

The accompanying notes are an integral part of these statements.

SECURITY ASSISTANCE ACCOUNTS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)	2019 (UNAUDITED)
Unexpended Appropriations		
Beginning Balance (Note 18)	$6,695.8	$6,134.3
Prior Period Adjustments:		
Corrections of errors		(23.6)
Beginning Balance, as adjusted	$6,695.8	$6,110.7
Budgetary Financing Sources:		
Appropriations Received	6,269.8	6,302.4
Appropriations Transferred In/Out	222.6	(67.8)
Other adjustments (+/-)	(144.5)	(7.3)
Appropriations Used	(5,799.3)	(5,642.2)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections of $0.0 in FY 2020 and $0.0 in FY 2019) - (Note 18)	$548.6	$585.1
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	$7,244.4	$6,695.8
Cumulative Results of Operations		
Beginning Balance	$6,133.1	$6,056.5
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	$6,133.1	$6,056.5
Budgetary Financing Sources:		
Appropriations Used	5,799.3	5,642.2
Nonexchange Revenue	38,324.9	33,031.0
Donations and Forfeitures of Cash and Cash Equivalents	281.9	
Transfers In/Out Without Reimbursement	1,297.8	(11.0)
Other Financing Sources (Nonexchange):		
Transfers-in/out without reimbursement (+/-)	(61.1)	(13.8)
Other (+/-)	(194.1)	(7.7)
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	$45,448.7	$38,640.7
Net Cost of Operations (Includes Funds from Dedicated Collections - See Note 18)	112,069.3	38,564.1
Net Change	$(66,620.6)	$76.6
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	$(60,487.5)	$6,133.1
Net Position	$(53,243.1)	$12,828.9

The accompanying notes are an integral part of these statements.

SECURITY ASSISTANCE ACCOUNTS
COMBINED STATEMENT OF BUDGETARY RESOURCES

FOR YEARS ENDED SEPTEMBER 30, 2020 AND 2019
($ IN MILLIONS)

	2020 (UNAUDITED)		2019 (UNAUDITED)	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated balance from prior year budget authority, net	$182,734.4	$-	$2,521.7	$15.2
(discretionary and mandatory) (Note 21)				
Appropriations (discretionary and mandatory)	6,266.3	-	7,322.0	-
Borrowing Authority (discretionary and mandatory)	-	-	-	2.3
Contract Authority (discretionary and mandatory)	54,653.7	-	54,174.6	-
Spending Authority from offsetting collections	42.3	853.2	2.4	261.1
(discretionary and mandatory)				
Total Budgetary Resources	$243,696.7	$853.2	$64,020.7	$278.6
Status of Budgetary Resources:				
New obligations and upward adjustments (total)				
Unobligated balance, end of year	$69,655.3	$820.4	$63,105.2	$5.5
Apportioned, unexpired accounts	73,311.3	-	300.1	11.8
Unapportioned, unexpired accounts	100,488.2	32.8	547.3	261.3
Unexpired unobligated balance, end of year	173,799.5	32.8	847.4	273.1
Expired unobligated balance, end of year	241.9	-	68.1	-
Unobligated balance, end of year (total)	$174,041.4	$32.8	$915.5	$273.1
Total Budgetary Resources	$243,696.7	$853.2	$64,020.8	$278.6
Outlays, Net				
Outlays, net (total) (discretionary and mandatory)	$43,520.6	$-	$39,863.1	$-
Distributed offsetting receipts (-)	(38,359.6)	-	(33,007.3)	-
Agency Outlays, net (discretionary and mandatory)	$5,161.0	$-	$6,855.8	$-
Disbursements, Net:				
4220 Disbursements, net (total) (mandatory)	$-	$(752.0)	$-	$267.4

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

CLICK EACH NOTE FOR QUICK ACCESS

NOTE DISCLOSURES RELATED TO THE BALANCE SHEET

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

CLICK EACH NOTE FOR QUICK ACCESS

OTHER STATEMENTS

NOTE DISCLOSURES NOT PERTAINING TO A SPECIFIC STATEMENT

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Security Cooperation (SC) comprises all activities undertaken by the Department of Defense (DoD) to encourage and enable international partners to work with the United States to achieve strategic objectives. It includes all DoD interactions with foreign defense and security establishments, including all DoD-administered Security Assistance (SA) programs, that build defense and security relationships; promote specific U.S. security interests, including all international armaments cooperation activities and SA activities; develop allied and friendly military capabilities for self-defense and multinational operations; and provide U.S. forces with peacetime and contingency access to host nations. It is DoD policy that SC is an important tool of national security and foreign policy and is an integral element of the DoD mission. SC activities shall be planned, programmed, budgeted, and executed with the same high degree of attention and efficiency as other integral DoD activities. SC requirements shall be combined with other DoD requirements and implemented through standard DoD systems, facilities, and procedures.

SA is a group of programs, authorized under Title 22 authorities, by which the United States provides defense articles, military education and training, and other defense-related services by grant, loan, credit, cash sales, or lease, in furtherance of national policies and objectives. All SA programs are subject to the continuous supervision and general direction of the Secretary of State to best serve U.S. foreign policy interests; however, programs are variously administered by DoD or Department of State (DoS). Those SA programs that are administered by DoD are a subset of SC.

B. BASIS OF PRESENTATION

These financial statements have been prepared to report the financial position and results of operations of the Security Assistance Accounts (SAA), which include analysis of the Foreign Military Sales (FMS) Trust Fund and several other accounts that are, identified in the President's Budget Request, appropriated through the Department of State (DOS), Foreign Operations, and Related Programs Appropriations Act. These accounts include those that contain U.S. government funds appropriated for Title 10 security assistance and funds deposited by foreign countries and international organizations, or by other entities for the use of foreign countries and international organizations. See paragraph 1.C, Appropriations and Funds, for a list of these accounts. The FMS Trust Fund and other accounts for funds appropriated for security assistance are managed by DSCA on behalf of the Department of Defense (DoD), in accordance with the authority delegated from the Executive Office of the President (EOP), the requirements of the Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994, and other applicable laws and regulations. The FMS Trust Fund and the accounts for funds appropriated for security assistance hereafter will be referred to as the DSCA Security Assistance Accounts.

The financial statements were prepared from accounting records that are maintained by the Implementing Agencies (IA), consisting of the Military Departments (MILDEPs), Other Defense Organizations (ODO), and the Defense Finance and Accounting Service (DFAS) in accordance with, and to the extent possible, U.S. generally accepted accounting principles (U.S. GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements; and the DoD Financial Management Regulation (FMR).

The accompanying financial statement information encompasses all SAA unless otherwise noted. Information relating to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The DoD accounting processes used to compile SAA financial data are unable to fully implement all elements of U.S. GAAP and OMB Circular No. A-136 due to limitations of financial management processes, financial systems, and nonfinancial systems and processes that support the financial statements. Many of the accounts derive their reported values and other information for major asset and liability categories largely from nonfinancial systems, such as the SAA's case management systems. Such legacy systems were designed to support reporting requirements for maintaining asset accountability and reporting the status of federal appropriations rather than preparing financial statements consistent with U.S. GAAP. There are ongoing efforts to implement process and system improvements addressing these limitations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. MISSION OF THE REPORTING ENTITY (CONTINUED)

Many of the SAA's material weaknesses are due to several of the DoD's 25 auditor-identified material weaknesses: (1) Financial Management Systems, (2) Intergovernmental Eliminations, (3) Fund Balance with Treasury, (4) Statement of Net Cost, (5) Other Accounting Entries, (6) Reconciliation of Net Cost to Net Outlays, (7) Accounts Payable, and (8) Accounts Receivable. The SAA rely heavily on the DoD infrastructure, therefore, the success of the SAA is dependent on the DoD's ability to mitigate these material weaknesses.

C. MISSION OF THE REPORTING ENTITY

The SAA mission is to lead, direct and manage security cooperation programs and resources to support the U.S. national security objectives. Such programs build relationships with foreign countries and international organizations that promote the U.S. interests, develop allied and partner capacities for self-defense and coalition participation in overseas contingency operations, and promote peacetime and contingency access for U.S. forces. The SAA accomplishes its responsibilities for security cooperation in concert with the Department of State (DOS), MILDEPs, other U.S. Government organizations, U.S. industry, and non-governmental organizations. Together the SC provide financial and technical assistance, Foreign Military Financing (FMF) for defense articles and services, including training, provided through the FMS program, as well as training provided and funded under International Military Education and Training (IMET) authorities.

D. APPROPRIATIONS AND FUNDS

The FMS Trust Fund is a U.S. Treasury account (Treasury Account Symbol (TAS) 8242) which contains deposits from FMS foreign country and international organization customers, as well as funds transferred into the account from U.S. Government appropriations, for use in carrying out specific programs in accordance with the Arms Export Control Act (AECA), as amended (22 U.S.C. § 2751 et seq.), the Foreign Assistance Act (FAA) of 1961, as amended, (22 U.S.C. § 2151 et seq.), and other legal authorities. The monies in the FMS Trust Fund are subject to U.S. Treasury account system controls from the date of receipt to the date of expenditure or refund. At the country or customer level there are distinct subsidiary accounts used by DoD through DSCA and DFAS to separately and individually account for each FMS customer's deposits, other collections or deposits, payments of bills, refunds, and adjustments. At the U.S. Treasury level, the corpus of the FMS Trust Fund represents the total aggregations of balances (receipts minus disbursements) for all activities and programs.

The SAA uses separate U.S. Treasury Accounts for the General Fund Foreign Operations (International Affairs) appropriations. These accounts are:

International Military Education and Training (TAS 1081)

Foreign Military Financing Program Account (TAS 1082)

Foreign Military Financing, Direct Loan Program Account (TAS 1085)

Foreign Military Loan Liquidating Account (TAS 4121)

Foreign Military Financing, Direct Loan Financing Account (TAS 4122)

Military Debt Reduction Financing Account (TAS 4174)

Special Defense Acquisition Fund (TAS 4116)

The SAA designates funds as general, special, and trust funds. The DSCA uses these appropriations and funds to execute its missions and subsequently reports on resource usage.

General and special appropriations transferred into the FMS Trust Fund are used for financial transactions, including personnel, operations and maintenance of security assistance functions, and financing of FMS, which may include sales of defense articles and services from stock or through procurement, and the sale of foreign military construction.

The FMS Trust Fund accounts for receipts and expenditures of funds held in trust by the U.S. government for use in carrying out specific purposes or programs in accordance with applicable laws, regulations, and agreements.

The SAA is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. APPROPRIATIONS AND FUNDS (CONTINUED)

allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. Exceptions to this general rule affecting the SAA include all U.S. Treasury-Managed Trust Funds, EOP, and all other funds specifically designated by OMB. The DSCA's T22 appropriations related to security assistance are allocation transfers from the EOP qualifying as the OMB exception mentioned above and all related activity is reported separately from the consolidated DoD financial statements.

E. BASIS OF ACCOUNTING

The legacy financial management systems utilized by IAs to execute SAA activities are not fully compliant with full accrual accounting requirements. Many of the IA's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of U.S. GAAP guidance. These legacy systems were not designed to collect and record financial information on a full accrual accounting basis as required by U.S. GAAP. Most of DSCA, MILDEP, and ODO financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The SAA's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the IAs. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, and accounts payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated SAA level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The SAA, with the IAs, is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all IA systems and related processes are able to collect and report financial information as required by U.S. GAAP, there will be instances when the reported financial data is based on budgetary transactions data from nonfinancial feeder systems.

F. REVENUES AND OTHER FINANCING SOURCES

As authorized by The Foreign Assistance Act (FAA) of 1961, as amended and The Arms Export Control Act (AECA) of 1976, as amended, payments for the sales of defense articles and services are deposited into the FMS Trust Fund. Appropriations provided on an annual or multiyear basis for security assistance are a financing source and are transferred into the FMS Trust Fund, or deposited into the accounts for funds appropriated for security assistance. Pricing for defense articles and services, including training, is established to recover costs as required by the AECA, the FAA, and OMB Circular A-25, User Charges. The SAA recognize revenue when earned within the constraints of current system capabilities.

The SAA does not include nonmonetary support provided by friendly foreign countries and international organizations in amounts reported in the Statement of Net Cost and Note 24, Reconciliation of Net Cost to Net Outlays.

The SAA participates in assistance in-kind agreements in its overseas presence. The assistance in kind provided in support of security cooperation programs includes the use of facilities and personnel (guards and drivers) at a small number of Security Cooperation Offices worldwide.

The SAA collects payments from foreign customers in advance of delivery of goods or services and records unearned revenue accordingly. All FMS Trust Fund revenue is reclassified as nonexchange once customers confirm the receipt of goods and services, since the FMS Trust Fund does not provide any of the goods or services directly, but serves as an intermediary.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. RECOGNITION OF EXPENSES

SAA policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems utilized by SAA were not designed to collect and record transactions on an accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, and unbilled revenue. The SAA continues to implement process and system improvements to address these limitations.

H. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. However, SAA cannot accurately identify most of its intragovernmental transactions because IA systems do not track buyer and seller data needed to match related transactions. The DoD is enhancing systems and a standard financial information structure incorporating the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2- Chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. The funds within the SAA are unable to fully reconcile intragovernmental transactions with all federal agencies; however, the SAA are able to reconcile balances pertaining to borrowing from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act (FECA) transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Imputed financing represents the costs paid on behalf of the FMS Trust Fund by the Office of Personnel Management for employee pension, post-retirement health, and life insurance benefits; and the Department of Labor for post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act.

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

I. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS

Each year, SAA sells defense articles and services to foreign governments and international organizations under the provisions of the AECA. Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance of vendor payment and delivery of goods and services to the foreign partner.

J. FUNDS WITH THE U.S. TREASURY

The SAA monies are held in U.S. Treasury accounts and the Federal Reserve Bank in individual accounts established by the U.S. for foreign countries. Funds held in the Federal Reserve Bank are transferred to the FMS Trust Fund account to be disbursed for FMS purposes.

For monetary financial resources maintained in U.S. Treasury accounts, the disbursing offices of DFAS, the Military Departments, the U.S. Army Corps of Engineers (USACE), and the DOS's financial service centers process the majority of SAA cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury (FBwT) account. On a monthly basis the FBwT for the SAA is reviewed and adjusted as required to agree with the U.S. Treasury accounts.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. CASH AND OTHER MONETARY ASSETS

Cash is the total of cash resources under the control of DoD including coin, paper currency, negotiable instruments, which are held for deposit in banks or other financial institutions and is classified as "nonentity" and is restricted.

The FMS Trust Fund only accepts U.S. dollars for payment of defense articles and services per DSCA 5015.38-M Security Assistance Management Manual; Chapter 9; Financial Policies and Procedures

L. ACCOUNTS RECEIVABLE

The SAA accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. Gross receivables must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS 1 and Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables.

M. DIRECT LOANS AND LOAN GUARANTEES

The SAA administers the FMF program on behalf of the EOP. Direct loans and loan guarantees are authorized by sections 23 and 24 of the AECA, Public Law (P.L). 90-269, as amended; section 503(a) of the FAA; and other specific legislation. These loans and guarantees assist friendly foreign countries and international organizations in purchasing U.S. defense articles and services.

N. INVENTORIES AND RELATED PROPERTY

The SAA maintain inventories in the Special Defense Acquisition Fund until it is placed on an FMS case. For FMS Trust Fund, the defense articles are provided to FMS customers from the U.S. Government or the contractor pursuant to a contract with the U.S. Government. Defense articles sold from the DoD or the U.S. Coast Guard are assets of the providing component until title is transferred to foreign customer.

O. INVESTMENTS IN U.S. TREASURY SECURITIES

Not applicable

P. GENERAL PROPERTY, PLANT AND EQUIPMENT

Not applicable

Q. ADVANCES AND PREPAYMENTS

When advances are permitted by law, legislative action, or presidential authorization, the DoD's policy is to record advances and prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. Not all implementing agencies executing on behalf of the SAA have implemented this policy primarily due to system limitations.

R. LEASES

The SAA do not have capital leases and currently is not able to reliably estimate the value of operating leases.

S. OTHER ASSETS

Other assets include civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the SAA Balance Sheet.

The SAA conduct business with commercial contractors using two primary types of contracts: fixed price and cost reimbursable. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. These payments are designed to alleviate the potential financial burden on contractors performing on certain long-term contracts and facilitate competition for defense contracts. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisitions Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

T. CONTINGENCIES AND OTHER LIABILITIES

The Statement of Federal Financial Accounting Standard (SFFAS) No. 5, "*Accounting for Liabilities of the Federal Government*", as amended by SFFAS No. 12, "*Recognition of Contingent Liabilities Arising from Litigation*," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The SAA recognize contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The SAA risk of loss due to contingencies arise as a result of pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

U. ACCRUED LEAVE

For personnel compensation and benefits the issue is usually the "timing" of the obligation and not the "amount" of the obligation. The amount is prescribed by laws that cover the civil service and the uniformed service and determined by well-established personnel procedures. As for the timing of the obligation, the amounts generally are recorded as obligations as the amounts are earned during the reporting pay period, with the following exceptions:

Annual leave at the time it becomes due and payable as terminal leave or taken in lieu of a lump sum payment because normally, annual leave is unfunded.

The balance of the liabilities for annual leave and other leave (compensatory time and credit hours), including fringe benefit costs associated with the leave, must be assessed and, as needed, adjusted to reflect all pay increases and unused leave balances at least quarterly for financial statement purposes. For General funds, unused annual leave is typically unfunded until the leave is used.

The FMS Trust Fund reports liabilities for accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

V. NET POSITION

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 transfer in and out of assets that were not reimbursed.

W. TREATIES FOR USE OF FOREIGN BASES

Not applicable

X. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections may be evidenced by the availability of corroborating documentation

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS (CONTINUED)

generally support the summary level adjustment made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the SAA accounts payable and receivable trial balances prior to validating underlying transactions. As a result, misstatements of reported Accounts Payable and Receivable are likely included in the SAA financial statements

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payables/receivable at the time accounting reports are prepared. Accordingly, the SAA on this DoD policy and the DoD infrastructure, to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements and collections are also applied to reduce accounts payable and receivable accordingly.

Y. FIDUCIARY ACTIVITIES

Not applicable

Z. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

Not applicable

AA. SIGNIFICANT EVENTS

Not applicable

NOTE 2: NON-ENTITY ASSETS

TABLE 2. NON-ENTITY ASSETS

As of September 30 ($ in millions)	2020	2019
Intragovernmental Assets		
Fund Balance with Treasury	$(2.2)	$24,275.2
Total Intragovernmental Assets	(2.2)	24,275.2
Non-Federal Assets		
Cash and Other Monetary Assets	34,094.7	37,110.4
Accounts Receivable	683.5	678.5
Other Assets	-	41,570.8
Total Non-Federal Assets	34,778.2	79,359.7
Total Non-Entity Assets	34,776.0	103,634.9
Total Entity Assets	51,273.7	19,650.0
Total Assets	$86,049.7	$123,284.9

INTRAGOVERNMENTAL ASSETS

Nonentity Assets are assets for which the SAA maintain stewardship accountability and reporting responsibility but are not available for the agency's operations.

Fund Balance with Treasury and Cash and Other Monetary Assets consist of advance deposits from friendly countries and international organizations to facilitate the purchase of U.S. defense articles and services based on future requirement forecasts.

Accounts Receivable consist of amounts for interest, fines, and penalties due on debt from loans and nonfederal funds owed to the FMS Trust Fund country accounts in litigation at the Department of Justice or collection status at the Defense Finance and Accounting Service (DFAS). Some portion of these uncollected funds may be payable to the FMS Administrative Surcharge account but are not discernible prior to collection.

NON-FEDERAL ASSETS

Nonfederal other Assets consist primarily of advances paid for undelivered defense articles and services intended for future delivery to the FMS customer.

NOTE 3: FUND BALANCE WITH TREASURY

TABLE 3: STATUS OF FUND BALANCE WITH TREASURY

As of September 30 ($ in millions)	2020	2019
Unobligated Balance		
Available	$73,311.3	$311.8
Unavailable	$106,453.2	$6,092.5
Total Unobligated Balance	$179,764.5	$6,404.3
Obligated Balance Not Yet Disbursed	$56,296.6	$212,569.6
Non-FBWT Budgetary Accounts		
Contract Authority	$(193,363.4)	$(177,815.4)
Total Non-FBWT Budgetary Accounts	$(193,363.4)	$(177,815.4)
Total FBWT	$42,697.7	$41,158.5

The Status of FBwT, as presented in Table 3, 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.

Contract Authority and Spending Authority from Anticipated Collections does not increase the FBwT when initially posted, but does provide budgetary resources. FBwT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBwT upon receipt of the budget authority.

Unfilled Customer Orders without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. 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 Department's balance as reported by Treasury. The difference between FBwT in the Department's general ledgers and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD Components' general ledgers 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 IA's general ledger accounts and up the SAA financial statements.

NOTE 4: CASH AND OTHER MONETARY ASSETS

TABLE 4: CASH AND OTHER MONETARY ASSETS

As of September 30 ($ in millions)	2020	2019
Cash	$34,094.7	$37,110.4
Total Cash and Other Monetary Assets	$34,094.7	$37,110.4

Cash balance as of September 30, 2020 includes advance deposits from foreign nations in the Federal Reserve Bank which have not been transferred to the Foreign Military Sales Trust Fund and are not available for agency use (nonentity cash).

NOTE 5: INVESTMENTS AND RELATED INTEREST

The SAA has no Investments or Related Interest

NOTE 6: ACCOUNTS RECEIVABLE

TABLE 6: ACCOUNTS RECEIVABLE

As of September 30 ($ in millions)	2020		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$96.5	$-	$96.5
Non-Federal Receivables (From the Public)	$(106.4)	$(0.1)	$(106.5)
Total Accounts Receivable	$(9.9)	$(0.1)	$(10.0)
	2019		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$2.3	N/A	$2.3
Non-Federal Receivables (From the Public)	$6.7	(0.0)	$6.7
Total Accounts Receivable	$9.0	$(0.0)	$9.0

Accounts Receivable represent the Foreign Military Sales (FMS) Trust Fund claim for payment from other entities. In FY 2019, the FMS Trust Fund only recognized an allowance for uncollectible amounts from the public. Claims with other federal agencies were resolved in accordance with the Intragovernmental Business Rules. Starting FY 2020, the SAA recognizes an allowance for uncollectible amounts from the public and from other federal agencies. Allowances for uncollectible accounts are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

The 106.5 million abnormal balance in Non-Federal Accounts Receivable is related to main account 8242 (the FMS Trust Fund) and is due to improper reporting from feeder accounting systems. The SAA is researching the root cause of this abnormal balance to be corrected in future reporting periods.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEE, NON-FEDERAL BORROWERS

The SAA operates the following direct loans and/or loan guarantee programs:

The Arms Export Control Act, as amended, authorizes funds to be appropriated to the President for financing the sales of defense articles and defense services to eligible foreign countries. Each loan is reviewed in the light of the purchasing country's financial condition, its need for credit, U.S. economic or military assistance programs in the country and region, and other proposed arms purchases by the country. The President delegates to the Secretary of Defense the authority to issue and guaranty loans through the designated administering agency, SAA. The loans are issued to friendly, less economically developed countries. Pursuant to the authority contained in the Act, SAA operates the four funds, known as:

Foreign Military Loan Liquidating Account (FMLLA)), for pre-1992 loans

Foreign Military Financing Direct Loan Program Account (FMFDLPA), for post-1991 loans

Foreign Military Financing Direct Loan Financing Accounts (FMFDLFA), for post-1991 loans

Military Debt Reduction Financing Account (MDRFA) for reducing loan receivables for eligible countries.

The FMLLA is a liquidating account including all assets, liabilities, and equities for loan balances recorded prior to FY 1992. No new loan disbursements are made from this account. Certain collections made into this account are made available for default claim payments. The Federal Credit Reform Act of 1990 (FCRA) provides permanent indefinite authority to cover obligations for default payments in the event the funds in the liquidating account are otherwise insufficient.

The FMFDLPA is a program account established pursuant to the FCRA to provide the funds necessary for the subsidy element of loans. Expenditures from this account finance the subsidy element of direct loan disbursements and are transferred into the FMFDLFA to make required loan disbursements for approved Foreign Military Sales or commercial sales.

The FMFDLFA is a financing account used to make disbursements of Foreign Military Loan funds for approved procurements and for subsequent collections for the loans after September 30, 1991. The account uses permanent borrowing authority from the U.S. Treasury combined with transfers of appropriated funds from FMFDLPA to make the required disbursements to loan recipient country borrowers for approved procurements. Receipts of debt service collections from borrowers are used to repay borrowings from U.S. Treasury.

The MDRFA is a financing account established for the debt relief of certain countries as established by Public Law 103-87. The MDRFA buys the portfolio of loans from the FMLLA, thus transferring the loans from the FMLLA account to the MDRFA account. The Paris Club negotiates the debt forgiveness with Highly Indebted Poor Countries (HIPC). The Paris Club has twenty-two member countries that negotiate rescheduling or refinancing of debt for HIPC. The Paris Club provides debt reduction initially on payments coming due over a specific period corresponding to the length of an International Monetary Fund (IMF) supported economic reform program. Reduction then is staged, with each successive stage contingent upon debtor country compliance with its IMF-support program. Under Naples Terms, stock of debt reduction is provided after three years of good performance with respect to IMF reform programs and payments to Paris Club creditors. The United States incurs the budget cost of the eventual stock of debt reduction when it agrees to the initial "maturities" reduction of payments coming due, since bilateral agreements commit us to stock reduction once the Paris Club agrees to provide them.

The FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

The SAA loans are reported at the present value basis for post-credit reform loans and under the allowance-for-loss method for pre-credit reform of the following projected cash flows: (1) loan disbursements, (2) repayments of principal, and (3) payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEE, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7A: SUMMARY OF DIRECT LOANS AND LOAN GAURANTEES

As of September 30 ($ in millions)	2020	2019
Direct Loans:		
Foreign Military Loan Liquidating Account	$683.4	$671.7
Foreign Military Financing Account	1,723.7	2,432.1
Military Debt Reduction Financing Account	-	36.2
Total Direct Loans	$2,407.1	$3,140.0
Total Defaulted Loan Guarantees	$-	$-
Total Loans Receivable	$2,407.1	$3,140.0

LOANS RECEIVABLE

Direct loans are reported at the present value basis for post-credit reform loans and under the allowance-for-loss method for pre-credit reform of the following projected cash flows:

- Loan disbursements;
- Repayments of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries

NOTE 7: DIRECT LOAN AND LOAN GUARANTEE, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7B: DIRECT LOANS OBLIGATED

As of September 30 ($ in millions)	2020	2019
Foreign Military Loan Liquidating Account		
Loans Receivable Gross	$311.4	$316.9
Interest Receivable	2,353.2	2,266.6
Allowance for Subsidy Cost (Present Value)	(1,981.2)	(1,911.8)
Value of Assets Related to Direct Loans, Net	$683.4	$671.7
Foreign Military Financing Account		
Loans Receivable Gross	$2,581.1	$3,201.0
Allowance for Subsidy Cost (Present Value)	(857.4)	(768.9)
Value of Assets Related to Direct Loans, Net	$1,723.7	$2,432.1
Military Debt Reduction Financing Account		
Allowance for Subsidy Cost (Present Value)	$-	$36.2
Value of Assets Related to Direct Loans, Net	$-	$36.2
Total Direct Loans Receivable		
Loans Receivable Gross	$2,892.5	$3,517.9
Interest Receivable	$2,353.2	$2,266.6
Allowance for Subsidy Cost (Present Value)	$(2,838.6)	$(2,644.5)
Total Direct Loans Receivable	$2,407.1	$3,140.0

OTHER DISCLOSURES

The SAA bills the countries semiannually for loan repayments. Applying terms of the loans with the countries, accrued interest receivable is calculated using the simple interest method. Interest accrued on unpaid balances use the same interest rate plus 4 percent for loans owed to the Federal Financing Bank.

The allowance for credit subsidy account for the FMFDLFA account is calculated taking into consideration three transactions: (1) transfers of subsidy from the program account to the financing account; (the subsidy is the difference between the expected cash outlays from the U.S. Government and the present value of the expected collections); (2) interest payments from the U.S. Treasury to the financing fund; and (3) upward adjustments due to re-estimates as U.S. Treasury borrowing rates change over time from the loan repayment rate and an increase in estimated defaults on the loan.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEE, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7F. SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES FOR POST-FY 1991 DIRECT LOANS

As of September 30 ($ in millions)	2020	2019
Beginning Balance of the Subsidy Cost Allowance	$732.8	$505.9
Adjustments:		
Subsidy Allowance Amortization	$124.6	$226.9
Ending Balance of the Subsidy Cost Allowance		
Before Reestimates	$857.4	$732.8
Ending Balance of the Subsidy Cost Allowance	$857.4	$732.8

TABLE 7G: DEFAULTED GUARANTEED LOANS

The SAA does not report Loan Guarantees.

TABLE 7H: GUARANTEED LOANS OUTSTANDING

The SAA does not report Loan Guarantees.

TABLE 7I: LIABILITY FOR LOAN GUARANTEES

The SAA does not report Loan Guarantees.

TABLE 7J: SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM

The SAA does not report Loan Guarantees.

TABLE 7K: BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR

The SAA does not report Loan Guarantees.

NOTE 7: DIRECT LOAN AND LOAN GUARANTEE, NON-FEDERAL BORROWERS (CONTINUED)

TABLE 7L: SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

The SAA does not report Loan Guarantees.

ADMINISTRATION EXPENSES

Administrative expenses for loans are not funded in the loan program account. The Office of Management and Budget made the decision to fund administration of loans in the Foreign Military Financing Grant account (11*1082) since the dollar amount was so low.

NOTE 8: INVENTORY AND RELATED PROPERTY

TABLE 8A: INVENTORY AND RELATED PROPERTY

As of September 30 ($ in millions)	2020	2019
Inventory, Net	$650.3	$-
Operating Materials & Supplies, Net		288.2
Total Inventory and Related Property, Net	$650.3	$288.2

The SAA began reporting Inventory and Related property in the 4th Quarter of FY 2019 for articles procured through the Special Defense Acquisition Fund (SDAF). Management is continuing ongoing efforts to determine if there any additional inventory that should be reported in the financial statements and related footnotes. As Management continues to assess the data, reporting and accounting treatment may change in future periods.

TABLE 8B: INVENTORY CATEGORIES

As of September 30 ($ in millions)	2020			
	Inventory, Gross Value	Reevaluation Allowance	Inventory, Net	Validation Method
Held for Sale	$635.1		$635.1	LAC, MAC
Work-in-Process	15.2	-	15.2	LAC, MAC
Total	$650.3	$-	$650.3	

Legend for Validation Methods:

NRV = Net Realizable Value, LAC = Latest Acquisition Cost, adjusted for holding gains and losses, MAC = Moving Average Cost

GENERAL COMPOSITION OF INVENTORY

Inventory is tangible personal property such as raw materials to be consumed in the production of goods for sale or in the provision of service for a fee, the value of inventory used in the production process, finished goods held for sale, and goods held for repair and eventual sale. Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns inventory items to a category based on asset type and condition.

INVENTORY RESTRICTIONS

There are no known restrictions on inventory.

OTHER DISCLOSURES

During FY 2020, the SAA determined the proper classification of Special Defense Acquisition Fund articles should be Inventory under SFFAS 3.

NOTE 8: INVENTORY AND RELATED PROPERTY (CONTINUED)

TABLE 8C: OM&S CATEGORIES

As of September 30 ($ in millions)	2019			
	OM&S, Gross Value	Reevaluation Allowance	OM&S, Net	Validation Method
Held in Reserve for Future Use	288.2	-	288.2	Note 1
Total	$288.2	$-	$288.2	

Note 1: Moving Average Cost, Direct Method, Historical Cost, Replacement Price and Standard Price,

NRV = Net Realizable Value

GENERAL COMPOSITION OF OM&S

OM&S includes inventory not held for sale. During FY 2020, the SAA determined the proper classification of Special Defense Acquisition Fund articles should be Inventory under SFFAS 3 as these articles are held until being placed on an FMS case.

OM&S RESTRICTIONS

There are no known restrictions on OM&S.

TABLE 8D: STOCKPILE MATERIAL CATEGORIES

The SAA does not report Stockpile Material.

NOTE 9: GENERAL PP&E, NET

The SAA has no general property, plant, and equipment. Management is continuing ongoing efforts to determine if there any PP&E that should be reported in the financial statements and related footnotes. As Management continues to assess the data, reporting and accounting treatment may change in future periods.

NOTE 10: OTHER ASSETS

TABLE 10: OTHER ASSETS

As of September 30 ($ in millions)	2020	2019
Non-Federal Other Assets		
Outstanding Contract Financing Payments	$6,191.2	$3,196.6
Advances and Prepayments	18.7	38,382.2
Total Non-Federal Other Assets	6,209.9	41,578.8
Total Other Assets	$6,209.9	$41,578.8

NON-FEDERAL OTHER ASSETS

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Foreign Military Sales (FMS) Trust Fund that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the FMS Trust Fund is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The balance of Outstanding Contract Financing Payments includes $1.9 billion in contract financing payments and an additional $4.3 billion in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. (See additional discussion in Note 15, *Other Liabilities*).

NOTE 11: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

TABLE 11: LIABILITIES NOT COVERED BY BUGETARY RESOURCES

As of September 30 ($ in millions)	2020	2019
Intragovernmental Liabilities		
Other	683.5	671.7
Total Intragovernmental Liabilities	683.5	671.7
Non-Federal Liabilities		
Accounts Payable	(3.5)	(3.5)
Other Liabilities	34,095.6	-
Total Non-Federal Liabilities	34,092.1	(3.5)
Total Liabilities Not Covered by Budgetary Resources	34,775.6	668.2
Total Liabilities Covered by Budgetary Resources	104,517.2	109,787.8
Total Liabilities	139,292.8	110,456.0

INTRAGOVERNMENTAL LIABILITIES

Other Liabilities consists primarily of pre-credit reform loan receivables that will be due to Treasury upon collection of funds. The SAA currently reports this as a Liability for Non-Entity Assets not reported on the Statement of Custodial Activity, however, there are ongoing efforts to determine proper classification and accounting treatment for balances related to pre-credit reform loans. As such, the SAA's reporting for Pre-credit reform loans may change in future periods.

NON-FEDERAL LIABILITIES

Accounts Payable primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Other Liabilities consists primarily of the liability to offset the other cash.

TOTAL LIABILITIES

Budgetary resources include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without contingency having to be met first.

Liabilities Not Covered by Budgetary Resources require congressional action before budgetary resources can be provided. Liabilities Not Requiring Budgetary Resources have not in the past and will not in the future require the use of budgetary resources.

NOTE 12: DEBT

TABLE 12: DEBT

As of September 30 ($ in millions)	2020		
	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$3,114.4	$(1,357.9)	$1,756.5
Total Debt	$3,114.4	$(1,357.9)	$1,756.5
	2019		
	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$3,112.1	$2.3	$3,114.4
Total Debt	$3,112.1	$2.3	$3,114.4

The Federal Credit Reform Act (FCRA) of 1990 provides financing accounts with indefinite authority to borrow from the U.S. Treasury to fund disbursements of loans made to sovereign nations for security assistance. This debt to the U.S. Treasury is reflected in the Foreign Military Financing Direct Loan Financing Account and the Military Debt Reduction Account.

The majority of the debt represents direct to foreign countries for pre 1992 and post 1991 loans. The FCRA governs all direct loan obligations and loan guarantee commitments made after FY 1991. Before 1992, funds were borrowed from the FFB to either directly loan the funds to foreign countries or to reimburse guaranteed loans defaulted. Beginning in 1992, based on the FCRA, the security assistance program began borrowing the funds from the U.S. Treasury.

NOTE 13: MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

The DSCA does not report any Military Retirement and Other Federal Employment Benefits. The balance of $127 thousand is due to the DSCA ingesting all feeder system data into the trial balances and financial statements. As the DSCA continues to assess data, reporting and accounting treatment of Military Retirement and Other Federal Employment Benefits may change in future periods.

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES

The SAA has no Environmental and Disposal Liabilities

NOTE 15: OTHER LIABILITIES

TABLE 15: OTHER LIABILITIES

As of September 30 ($ in millions)	2020		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Custodial Liabilities	$-	$683.5	$683.5
Total Intragovernmental Other Liabilities	$-	$683.5	$683.5
Non-Federal			
Accrued Funded Payroll and Benefits	$41.6	$-	$41.6
Advances from Others	61,019.4	-	61,019.4
Deferred Credits	39,580.3	-	39,580.3
Accrued Unfunded Annual Leave	1.0	-	1.0
Employer Contribution and Payroll Taxes Payable	18.0	-	18.0
Other Liabilities	-	34,094.7	34,094.7
Total Non-Federal Other Liabilities	$100,660.3	$34,094.7	$134,755.0
Total Other Liabilities	$100,660.3	$34,778.2	$135,438.5

	2019		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Advances from Others	$349.3	$-	$349.3
Custodial Liabilities		671.8	671.8
Total Intragovernmental Other Liabilities	$349.3	$671.8	$1,021.1
Non-Federal			
Accrued Funded Payroll and Benefits	$1.2	$-	$1.2
Advances from Others	99,427.3	3,188.7	102,616.0
Accrued Unfunded Annual Leave	0.2		0.2
Contract Holdbacks	753.5		753.5
Employer Contribution and Payroll Taxes Payable	0.3		0.3
Total Non-Federal Other Liabilities	$100,182.5	$3,188.7	$103,371.2
Total Other Liabilities	$100,531.8	$3,860.5	$104,392.3

NOTE 15: OTHER LIABILITIES (CONTINUED)

INTRAGOVERNMENTAL OTHER LIABILITIES

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

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

NON-FEDERAL OTHER LIABILITIES

Nonfederal Advances from Others, Noncurrent includes $61.0 billion for FY 2020 and $99.4 billion in FY 2019 related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vest with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, the Department has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance.

Total Contingent Liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

NOTE 16: LEASES

CAPITAL LEASES

The SAA has no Capital Leases. Management is continuing ongoing efforts to determine if there are any leases that should be reported in the financial statements and related footnotes. As Management continues to assess the data, reporting and accounting treatment may change in future periods.

OPERATING LEASES

The SAA has no Operating Leases. Management is continuing ongoing efforts to determine if there are any leases that should be reported in the financial statements and related footnotes. As Management continues to assess the data, reporting and accounting treatment may change in future periods.

NOTE 17: COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

The U.S. Government may be a party in various administrative proceedings or court litigations, but it is highly unlikely any will implicate the FMS Trust Fund. DSCA has not recorded any contingent liabilities for litigations for FY 2020 or FY 2019 within the Security Assistant Accounts. The U.S. funds appropriated for security assistance generally are not legally available for paying claims.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS

The SAA has no Funds from Dedicated Collections. Management is continuing ongoing efforts to determine if there any Funds from Dedicated Collections that should be reported in the financial statements and related footnotes. As Management continues to assess the data, reporting and accounting treatment may change in future periods.

NOTE 19: DISCLOSURES RELATED TO THE STATEMENT OF NET COST

TABLE 19: COSTS AND EXCHANGE REVENUE BY MAJOR PROGRAM

As of September 30 ($ in millions)	2020	2019
Operations, Readiness & Support		
Gross Cost	$158,662.3	$38,609.9
Less: Earned Revenue	(46,593.0)	(45.7)
Net Program Costs	112,069.3	38,564.1
Consolidated		
Gross Cost	158,662.3	38,609.9
Less: Earned Revenue	(46,593.0)	(45.7)
Total Net Cost	$112,069.3	$38,564.1

OTHER DISCLOSURES

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Department 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. Intragovernmental costs and revenue represent transactions between two reporting entities within the Federal Government. Public costs and exchange revenues are transactions made between the reporting entity and a nonfederal entity.

The Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act of 1993 (GPRA). The Department is in the process of reviewing available data and developing a cost reporting methodology required by SFFAS No. 4, "*Managerial Cost Accounting Concepts and Standards for the Federal Government* as amended by SFFAS No. 55, "*Amending Inter-Entity Cost Provisions*."

The systems utilized by the SAA do not fully meet accounting standards. Information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items, such as payroll expenses and accounts payable. The Department's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act of 1993 (GPRA). The Department is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) 4, "*Managerial Cost Accounting Concepts and Standards for the Federal Government*," as amended by SFFAS 30, "*Inter-entity Cost Implementation*."

Additionally, these systems do not track intragovernmental transactions by a customer at the transaction level. The FMS Trust Fund adjusts expenses by reclassifying amounts between federal and nonfederal expenses and accruing additional payables and expenses. Intradepartmental revenues and expenses are then eliminated.

NOTE 20: DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

RECONCILIATION DIFFERENCES

STATEMENT OF BUDGETARY RESOURCES TO THE STATEMENT OF CHANGES IN NET POSITION

The Appropriations on the SBR does not agree with the Appropriations Received on the Statement of Changes in Net Position. The difference of $3.57 million is attributed to temporary reductions in the Foreign Military Sales Trust Fund as well as the transfers for International Military Education & Training and the Foreign Military Financing Grant account.

TABLE 20A: RECONCILIATION OF APPROPRIATIONS ON THE STATEMENT OF BUDGETARY RESOURCES TO APPROPRIATIONS RECEIVED ON THE STATEMENT OF CHANGES IN NET POSITION

As of September 30 **($ in billions)**	**2020**	**2019**
Appropriations, Statement of Budgetary Resources	$6,266.3	$7,322.0
Permanent and Temporary Reductions	(415.0)	(542.7)
Contract Authority	474.6	1,552.4
Transfers	(63.2)	21.0
OMB Rescission	-	(11.0)
Total Reconciling Difference	(3.6)	1,019.6
Appropriations Received, Statement of Changes in Net Position	$6,269.8	$6,302.4

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments during FY 2019 to the budgetary resources available at the beginning of the year.

TERMS OF BORROWING AUTHORITY USED

The Department utilizes borrowing authority for the Foreign Military Financing (FMF) Initiatives. Borrowing authority is used in compliance with OMB Circular No. A-129. See Note 7, *Direct Loans and Loan Guarantees, Non-Federal Borrower*, for additional information related to FMF.

TABLE 21A: AVAILABLE BORROWING/CONTRACT AUTHORITY

As of September 30 ($ in millions)	2020	2019
Available Borrowing and Contract Authority at End of the Period	$-	$-

TABLE 21B. BUDGETARY RESOURCES OBLIGATED FOR UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30 ($ in millions)	2020	2019
Intragovernmental		
Unpaid		
Prepaid / Advanced		
Total Intragovernmental	$ -	$ -
Non-Federal		
Unpaid	$55,335.9	$183,956.2
Prepaid / Advanced	$101.9	$38,390.0
Total Non-Federal	$55,437.7	$222,346.2
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$55,437.7	$222,346.2

LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

A portion of the SAA's unobligated balances represent trust fund receipts collected in the current fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the funds and are available for obligation in the future. The SAA operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

NOTE 21: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES (CONTINUED)

EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

Differences between the SBR and the Budget of the U.S. Government is attributed to Appropriated Receipts in the Foreign Military Sales Trust Fund as well as the transfers for International Military Education & Training and the Foreign Military Financing Grant account. In addition, SAA began ingesting all feeder system data into the trial balances and financial statements. As the SAA continues to assess data, reporting and accounting treatment of various Security Assistance transactions may change in future periods.

CONTRIBUTED CAPITAL

There was no infusion of capital received in FY 2020

NOTE 22: DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The SAA has no disclosure related to Incidental Custodial Collections.

NOTE 23: FIDUCIARY ACTIVITIES

The SAA has no Fiduciary Activities

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS

TABLE 24: RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

As of September 30 ($ in millions)	2020		
	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	$(454.0)	$112,523.3	$112,069.3
Components of Net Cost That are Not Part of Net Outlays			
Year-end credit reform subsidy re-estimates	$-	$61.1	$61.1
Other	$-	$2.0	$2.0
Increase/(decrease) in assets			
Accounts Receivable	$99.8	$(182.6)	$(82.8)
Loans Receivable	$-	$2,537.6	$2,537.6
Other Assets	$-	$(38,384.6)	$(38,384.6)
Increase/(decrease) in liabilities			
Accounts Payable	$438.7	$43,106.6	$43,545.3
Salaries and benefits	$-	$(58.2)	$(58.2)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	$(11.7)	$(73,675.7)	$(73,687.5)
Other Financing sources			
Federal employee retirement benefit costs paid by OPM and Imputed to the agency	-		-
Transfers out (in) without reimbursement	(1,244.1)	-	(1,244.1)
Total Components of Net Cost That Are Not Part of Net Outlays	**(717.4)**	**(66,593.8)**	**(67,311.2)**
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of inventory	-	635.0	635.0
Other	-	(38,222.2)	(38,222.2)
Total Components of Net Outlays That Are Not Part of Net Cost	**-**	**(37,587.2)**	**(37,587.2)**
Other Temporary Timing Differences	**-**	**-**	**-**
Net Outlays	**(1,171.4)**	**8,342.4**	**7,171.0**
Agencies Outlays, Net, Statement of Budgetary Resources			**5,161.0**
Reconciling Differences			**2,010.0**

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS (CONTINUED)

TABLE 24: RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS (CONTINUED)

As of September 30 ($ in millions)	2019		
	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	$3,126.1	$35,438.0	$38,564.1
Components of Net Cost That are Not Part of Net Outlays			
Other	$-	$7.5	$7.5
Increase/(decrease) in assets			
Accounts Receivable	$-	$0.0	$0.0
Loans Receivable	$-	$358.0	$358.0
Other Assets	$-	$15,632.8	$15,632.8
Increase/(decrease) in liabilities			
Accounts Payable	$19.9	$(14,671.2)	$(14,651.3)
Salaries and benefits	$-	$(0.3)	$(0.3)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	$(7.7)	$54.4	$46.7
Other Financing sources	$-		
Transfers out (in) without reimbursement	$24.7		$24.7
Total Components of Net Cost That Are Not Part of Net Outlays	**$36.9**	**$1,381.3**	**$1,418.2**
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of inventory	$-	$288.2	$288.2
Other	$(7.7)	$(33,007.3)	$(33,015.0)
Total Components of Net Outlays That Are Not Part of Net Cost	**$(7.7)**	**$(32,719.1)**	**$(32,726.8)**
Other Temporary Timing Differences	**$-**	**$-**	**$-**
Net Outlays	**$3,155.3**	**$4,100.2**	**$7,255.5**
Agencies Outlays, Net, Statement of Budgetary Resources			**$6,855.8**
Reconciling Differences			**$399.7**

NOTE 24: RECONCILIATION OF NET COST TO NET OUTLAYS (CONTINUED)

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Department's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Department'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 Department. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

The Reconciling Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and Statement of Budgetary Resources. Additionally, the Department's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is on-going to resolve the remaining difference.

Per OMB Circular A-136, in the initial year of implementation, the disclosure requirements that were applicable in prior reporting periods are not required for comparative presentations.

NOTE 25: PUBLIC-PRIVATE PARTNERSHIPS

The SAA has no Public-Private Partnerships. Management is continuing ongoing efforts to determine if there any P3s that should be reported in the financial statements and related footnotes. As Management continues to assess the data, reporting and accounting treatment may change in future periods.

NOTE 26: DISCLOSURE ENTITIES AND RELATED PARTIES

The SAA has no disclosure entities or related parties. Management is continuing ongoing efforts to determine if there any should be reported in the financial statements and related footnotes. As Management continues to assess the data, reporting and accounting treatment may change in future periods.

NOTE 27: SECURITY ASSISTANCE ACCOUNTS

Note 27 is not applicable for the Security Assistance Accounts.

NOTE 28: RESTATEMENTS

The SAA has no restatements to report.

NOTE 29: COVID-19 ACTIVITY

The SAA has no COVID-19 Activity.

NOTE 30: SUBSEQUENT EVENTS

The SAA has no Subsequent Events to report.

NOTE 31: RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR COMPILATION IN THE U.S. GOVERNMENT-WIDE FINANCIAL REPORT

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government (FR). The FY 2020 FR will be published by The Bureau of Fiscal Service upon its release.

To prepare the FR, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The following tables display the relationship between each of the Department's financial statements (on the right side) and the Department's corresponding reclassified statements (on the left side) prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items.

"Non-Federal" transactions are with individuals, businesses, non-profit entities, and state, local, and foreign governments.

TABLE 31A: RECLASSIFICATION OF BALANCE SHEET

As of September 30
($ in millions)

Line Items Used to Prepare FY 2020 Government-wide BS			FY 2020 SAA Balance Sheet		
Line No.	**Line Title**	**Adjusted Balance**	**Line Description**	**Amount**	**Difference**
1	**Assets**				
2	**Non-Federal**				
			Cash and other monetary assets (Note 4)	$34,094.7	
2.1	**Cash and Other Monetary Assets**	**$34,094.7**	**Total**	**$34,094.7**	**$-**
			Accounts receivable, net (Note 6)	$(106.5)	
2.2	**Accounts and Taxes Receivable, Net**	**$(106.5)**	**Total**	**$(106.5)**	**$-**
			Direct loan and loan guarantees receivable, net (Note 8)	$2,407.1	
2.3	**Loans Receivable, Net**	**$2,407.1**	**Total**	**$2,407.1**	**$-**
			Inventory and related property, net (Note 9)	$650.3	
2.4	**Inventories and Related Property, Net**	**$650.3**	**Total**	**$650.3**	**$-**
			Other assets (Note 12)	$6,209.9	
2.8	**Other Assets**	**$6,209.9**	**Total**	**$6,209.9**	**$-**
2.9	**Total Non-Federal Assets**	**$43,255.5**	**Total Non-Federal Assets**	**$43,255.5**	
3	**Federal**				
			Fund Balance with Treasury (Note 3)	$42,697.7	
3.1	**Fund Balance With Treasury (RC 40)/1**	**$42,697.7**	**Total**	**$42,697.7**	**$-**
			Accounts receivable, net (Note 6)	$94.1	
			Assets for Agency Custodial and Non-Entity Liabilities other than the General Fund of the U.S. Government	$2.4	
3.4	**Accounts Receivable, Capital Transfers (RC 12)/1**	**$96.5**	**Total**	**$96.5**	**$-**
3.14	**Total Federal Assets**	**$42,794.2**	**Total Federal Assets**	**$42,794.2**	
4	**Total Assets**	**$86,049.7**	**Total Assets**	**$86,049.7**	
5	**Liabilities:**				
6	**Non-Federal**				

TABLE 31A: RECLASSIFICATION OF BALANCE SHEET (CONTINUED)

Line Items Used to Prepare FY 2020 Government-wide BS			FY 2020 SAA Balance Sheet		
Line No.	**Line Title**	**Adjusted Balance**	**Line Description**	**Amount**	**Difference**
			Accounts payable	$1,525.3	
6.1	**Accounts Payable**	**$1,525.3**	**Total**	**$1,525.3**	**$-**
			Federal employee and veteran benefits payable (Note 15)	$19.0	
6.3	**Federal Employee and Veteran Benefits Payable**	**$19.0**	**Total**	**$19.0**	**$-**
			Other liabilities (Notes 17, 18, and 19)	$134,736.0	
6.9	**Other Liabilities**	**$134,736.0**	**Total**	**$134,736.0**	**$-**
6.10	**Total Non-Federal Liabilities**	**$136,280.3**	**Total Non-Federal Liabilities**	**$136,280.3**	
7	**Federal**				
			Accounts payable	$572.5	
7.1	**Accounts Payable (RC 22)/1**	**$572.3**	**Total**	**$572.5**	**$(0.2)**
			Debt associated with loans (Note 14)	$1,756.5	
7.6	**Loans Payable (RC 17)/1**	**$1,756.5**	**Total**	**$1,756.5**	**$-**
			Total Must Tie to Adjusted Balance		
			Liability to the General Fund of the U.S. Government for custodial and	$683.5	
7.13	**Other Liabilities (RC 30)/1**	**$683.5**	**Total**	**$683.5**	**$-**
7.14	**Total Federal Liabilities**	**$3,012.3**	**Total Federal Liabilities**	**$3,012.5**	
8	**Total Liabilities**	**$139,292.6**	**Total Liabilities**	**$139,292.8**	
9	**Net Position:**				
			Unexpended appropriations - Funds other than those from Dedicated Collections	$7,244.4	
			Cumulative results of operations - Funds other than those from Dedicated Collections	$(60,487.5)	
9.2	**Net Position - Funds Other Than Those From Dedicated Collections**	**$(53,463.0)**	**Total**	**$(53,243.1)**	**$(219.9)**
10	**Total Net Position**	**$(53,463.0)**	**Total Net Position**	**$(53,243.1)**	
11	**Total Liabilities and Net Position**	**$85,829.6**	**Total Liabilities and Net Position**	**$86,049.7**	

For Federal Accounts Payables, SAA elimination transactions were incorrectly reported in GTAS causing a $200 thousand variance due to improper reporting from feeder accounting systems.

Refer to table 31C for more information regarding variances identified for Cumulative Results of Operations - Funds other than those from Dedicated Collections.

TABLE 31B: RECLASSIFICATION OF STATEMENT OF NET COST

As of September 30
($ in millions)

Line No.	Line Title	Adjusted Balance	Line Description	Amount
	Line Items Used to Prepare FY 2020 Government-wide SNC		**FY 2020 SAA Statement of Net Costs**	
1	**Gross Costs**			
				$155,332.6
2	**Non-Federal Gross Cost**	**$155,332.6**	**Total**	**$155,332.6**
6	**Total Non-Federal Gross Cost**	**$155,332.6**	**Total Non-Federal Gross Cost**	**$155,332.6**
7	**Federal Gross Cost**			
			Buy/sell cost (RC24) /2	$3,282.2
7.3	**Buy/Sell Cost (RC24)/2**	**$3,245.0**	**Total**	**$3,282.2**
			Borrowing and Other Interest Expense (RC 05)	$47.5
7.6	**Borrowing and other interest expense (RC05) / 2**	**$47.5**	**Total**	**$47.5**
8	**Total Federal Gross Cost**	**$3,292.5**	**Total Federal Gross Cost**	**$3,329.7**
9	**Department Total Gross Cost**	**$158,625.1**	**Department Total Gross Cost**	**$158,662.3**
10	**Earned Revenue**			
			Non-Federal Earned Revenue	$42,809.3
11	**Non-federal earned revenue**	**$42,809.3**	**Total**	**$42,809.3**
12	**Federal Earned Revenue**			
			Buy/Sell Revenue (exchange) (RC 24)	$3,775.7
12.2	**Buy/Sell Revenue (exchange) (RC24) /2**	**$3,775.3**	**Total**	**$3,775.7**
			Borrowing and other interest revenue (exchange) (RC 05) /2	$8.0
12.5	**Borrowing and other interest revenue (exchange) (RC 05) / 2**	**$8.0**	**Total**	**$8.0**
13	**Total Federal Earned Revenue**	**$3,783.3**	**Total Federal Earned Revenue**	**$3,783.70**
14	**Department Total Earned Revenue**	**$46,592.6**	**Department Total Earned Revenue**	**$46,593.00**
15	**Net Cost of Operations**	**$112,032.5**	**Net Cost of Operations**	**$112,069.28**

For Federal Gross Costs and Federal Earned Revenue, SAA elimination transactions were incorrectly reported in GTAS causing a $36.75 million variance due to improper reporting from feeder accounting systems.

TABLE 31C: RECLASSIFICATION OF STATEMENT OF CHANGES IN NET POSITION

As of September 30
($ in millions)

Line Items Used to Prepare FY 2020 Government-wide SCNP			FY 2020 SAA Statement of Changes in Net Position		
Line No.	**Line Title**	**Adjusted Balance**	**Line Description**	**Amount**	**Difference**
1	**Net position, beginning of period**	**$12,829.9**	**Total**	**$12,829.9**	**-**
4	**Net position, beginning of period - adjusted**	**$12,829.9**	**Net position, beginning of period - adjusted**	**$12,829.9**	
5	**Non-Federal Nonexchange Revenue:**				
			Other Taxes and Receipts	$38,343.1	
5.7	**Other Taxes and Receipts**	**$38,343.1**	**Total**	**$38,343.1**	**$-**
5.9	**Total Non-Federal Nonexchange Revenue**	**$38,343.1**	**Total Non-Federal Nonexchange Revenue**	**$38,343.1**	
6	**Federal Nonexchange Revenue:**				
			Borrowings and Other Interest Revenue (Non-exchange) (RC 05)	$61.1	
6.2	**Borrowings and Other Interest Revenue (Non-exchange) (RC 05) /1**	**$61.1**	**Total**	**$61.1**	**-**
			6.8 Accruals for the Entity Amounts to be Collected in a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 16)	$8.5	
6.8	**Borrowings and Other Interest Revenue (Non-exchange) (RC 05)**	**$8.5**	**Total**	**$8.5**	**-**
6.5	**Total Federal Nonexchange Revenue**	**$69.6**	**Total Federal Nonexchange Revenue**	**$69.6**	
7	**Budgetary Financing Sources:**				
			Appropriations Received As Adjusted (Rescissions and Other Adjustments) (RC 41) /1	$6,125.3	
7.1	**Appropriations Received As Adjusted (Rescissions and Other Adjustments) (RC 41) /1**	**$6,125.3**	**Total**	**$6,125.3**	**$-**
			Appropriations Used (RC 39)	$5,799.3	
7.2	**Appropriations Used (RC 39)**	**$5,799.3**	**Total**	**$5,799.3**	**-**
			Appropriations expended (RC 38) /1	$5,799.3	
7.3	**Appropriations expended (RC 38) /1**	**$5,799.3**	**Total**	**$5,799.3**	**$-**

TABLE 31C: RECLASSIFICATION OF STATEMENT OF CHANGES IN NET POSITION (CONTINUED)

Line Items Used to Prepare FY 2020 Government-wide SCNP			FY 2020 SAA Statement of Changes in Net Position		
Line No.	**Line Title**	**Adjusted Balance**	**Line Description**	**Amount**	**Difference**
			Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources (RC 08) /1		
7.6	**Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources (RC 08) /1**	**$-**	**Total**	**$7,895.9**	**(7,895.9)**
			Non-expenditure transfers-Out of unexpended appropriations and financing sources (RC 08) /1		
7.7	**Non-expenditure transfers-Out of unexpended appropriations and financing sources (RC 08) /1**	**$-**	**Total**	**$7,673.3**	**(7,673.3)**
			Expenditure transfers-in of financing sources (RC 09) /1	$1,305.3	
7.8	**Expenditure transfers-in of financing sources (RC 09) / 1**	**$1,263.0**	**Total**	**$1,305.3**	**(42.3)**
			Non-expenditure transfers-out of financing sources - capital transfers (RC 11)	$7.5	
7.11	**Non-expenditure transfers-out of financing sources - capital transfers (RC 11)**	**$-**	**Total**	**$7.5**	**$(8)**
7.20	**Total budgetary financing sources**	**$7,388.3**	**Total budgetary financing sources**	**$7,645.7**	
8	**Other Financing Sources:**				
			Transfers-out without reimbursement (RC 18) /1	$61.1	
8.2	**Transfers-Out Without Reimbursement (RC 18) /1**	**$61.1**	**Total**	**$61.1**	**$-**
8.11	**Total Other Financing Sources**	**$(61.1)**	**Total Other Financing Sources**	**$(61.1)**	
9	**Net Cost of Operations (+/-)**	**$112,032.0**	**Net Cost of Operations (+/-)**	**$112,069.3**	
10	**Ending Net Position Balance**	**$(53,462.2)**	**Ending Net Position Balance**	**$(53,242.1)**	

Elimination entries for Non-expenditure Transfers in and out of Unexpended Appropriations and Financing Sources were incorrectly reported in GTAS, causing a net variance of $222.6 million due to improper reporting from feeder accounting systems.

Elimination entries for Expenditure and Non-Expenditure transfers of Financing Sources were incorrectly reported in GTAS, causing a net variance of $1,297.8 million due to improper reporting from feeder accounting systems.

ACKNOWLEDGEMENTS

This Agency Financial Report is dedicated to Mr. Mark E. Easton for his service and leadership as the Deputy Chief Financial Officer from 2009 – 2020.

This report was prepared with the energies and talents of many employees across the Department of Defense. To these individuals, the Office of the Under Secretary of Defense (Comptroller) would like to offer its sincerest thanks and acknowledgement. In particular, we would like to recognize the following individuals for their contributions:

Office of the Under Secretary of Defense (Comptroller)

Office of the Deputy Chief Financial Officer

Mrs. Olga Allen
Ms. Kellie Allison
Ms. Yelena Baker
Mr. Brian Banal
Ms. Krystal Baranoski
Mr. Jerimiah Bennett
Mr. Steven Chad
Mr. James Davila
Mr. Adil Durrani
Mr. John Eberhardt
Ms. Ashley Evans
Ms. Rebecca Evertsz
Mr. Douglas Glenn
Ms. Kim Laurance
Ms. Calandra Layne
Ms. Maribel Langas Miller
Mr. Marlon Moreira
Mr. Charles Morse
Ms. Alice Rice
Mr. Robert Silverstein
Mr. Jeremy Stone
Mr. Anthony Wisdom
Mr. Scott Young

Defense Finance and Accounting Service

Mr. Joshua Bailey
Mr. Aaron Bobinsky
Mr. Larry Cox
Mrs. Heather Crews
Ms. Lisa Dager
Mr. Gerald Davenport
Ms. Nancy Hilliker
Ms. Geraldine Jackson
Mr. John Johnson
Ms. Althea Myrtle
Ms. Movita O'Neal
Mr. Jovan Peterkin
Mr. Thomas Rohn
Mr. Ned Torson
Ms. Takesha Washington-Pratt
Mr. Robert Weeden
Ms. Abigail Wingo

Office of the Chief Management Officer

Ms. Amy Bruins
Ms. Sheila Denham
Ms. Jennifer Hill
Ms. Cynthia Hufty
Ms. Meron Laiketsion
Mr. Christopher Smith
Mr. Ward Vaughn

Office of the Under Secretary of Defense (Research and Engineering)

Ms. Barbara Orlando

Office of the Under Secretary of Defense (Policy)

Ms. Jessica Beall
Mr. Elee Wakim

Office of the Under Secretary of Defense (Personnel and Readiness)

Ms. Taiwanna Smith

Office of the General Counsel, Department of Defense

Mr. John Ruoff

DEPARTMENT OF DEFENSE

We are interested in your feedback.
Please send your comments to:

osd.pentagon.ousd-c.mbx.DoD-AFR@mail.mil

or

United States Department of Defense
Office of the Under Secretary of Defense (Comptroller)
1100 Defense Pentagon
Washington, DC 20301-1100

This document is published online at: *http://comptroller.defense.gov/odcfo/AFR*