

United States Transportation Command

Fiscal Year 2018 Financial Report



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

November 15, 2018

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
COMMANDER, U.S. TRANSPORTATION COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
INSPECTOR GENERAL, U.S. TRANSPORTATION COMMAND

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Transportation
Command Working Capital Fund Financial Statements and Related Notes for
FY 2018 (Project No. D2017-D000FL-0158.000, Report No. DODIG-2019-013)

We contracted with the independent public accounting firm of Cotton & Company, LLP, (Cotton & Co) to audit the U.S. Transportation Command (USTRANSCOM) FY 2018 Working Capital Fund Financial Statements and related notes as of September 30, 2018, and for the year then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations. The contract required Cotton & Co to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008. Cotton & Co's Independent Auditor's Report is attached.

Cotton & Co's audit resulted in a disclaimer of opinion. Cotton & Co could not obtain sufficient, appropriate audit evidence to support the reported amounts within the USTRANSCOM financial statements. As a result, Cotton & Co could not conclude whether the financial statements and related notes were fairly presented in accordance with Generally Accepted Accounting Principles. Accordingly, Cotton & Co did not express an opinion on the USTRANSCOM FY 2018 Working Capital Fund Financial Statements and related notes.

Cotton & Co's report discusses five material weaknesses related to USTRANSCOM's internal controls over financial reporting. Specifically, Cotton & Co found material weaknesses including: ineffective controls over Information Technology; ineffective process to provide transaction-level populations to support significant financial

statement line items and reconcile the populations to reported amounts; ineffective controls over financial reporting; ineffective transactional controls; and ineffective budgetary controls. Cotton & Co's report also discusses one instance of noncompliance with applicable laws and regulations.

In connection with the contract, we reviewed Cotton & Co's report and related documentation and discussed the audit results with Cotton & Co representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we did not express, an opinion on the USTRANSCOM FY 2018 Working Capital Fund Financial Statements and related notes, conclusions about the effectiveness of internal control, conclusions on whether the USTRANSCOM's financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether the USTRANSCOM complied with laws and regulations.

Cotton & Co is responsible for the attached report, dated November 15, 2018, and the conclusions expressed in these reports. However, our review disclosed no instances in which Cotton & Co did not comply, in all material respects, with GAGAS.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.



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

Attachment:

As stated

INDEPENDENT AUDITORS' REPORT

Commander, United States Transportation Command (USTRANSCOM)

In our engagement to audit the fiscal year (FY) 2018 financial statements of the USTRANSCOM's Transportation Working Capital Fund (TWCF), we:

- Were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Found five material weaknesses in internal control over financial reporting as of September 30, 2018.
- Found no reportable noncompliance with certain provisions of laws, regulations, and contracts, exclusive of those referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), based upon our testing.
- Found that the USTRANSCOM's financial management systems did not substantially comply with certain Federal accounting standards and the USSGL at the transaction level.

The following sections contain:

- (1) Our report on the USTRANSCOM's financial statements, including required supplementary information included with the financial statements.
- (2) Other reporting required by *Government Auditing Standards*, which includes: a) our report on the USTRANSCOM's internal control over financial reporting; b) our report on the USTRANSCOM's compliance with laws, regulations, and contracts; and c) the USTRANSCOM's comments on a draft of this report.

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying consolidated USTRANSCOM's TWCF's financial statements, which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued in 2011 by the Comptroller General of the United States; and as applicable, Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

For certain significant accounts, the USTRANSCOM provided populations that were not suitable for testing, were incomplete, or did not reconcile to reported amounts. Because USTRANSCOM was unable to provide suitable populations for material line items, and those line items are beginning balances on the FY 2018 financial statements, we were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of the financial statements.

Disclaimer of Opinion

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

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Disaggregated Statement of Budgetary Resources be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. USTRANSCOM did not produce this Required Supplementary Information (RSI) or other RSI that may be applicable to USTRANSCOM.

Prior Period Financial Statements

The accompanying consolidated balance sheet as of September 30, 2017, and the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Written Representations from Management

Based upon our review of management's written representations, we have concerns regarding the reliability of certain representations provided to us by USTRANSCOM's components.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***Report on Internal Control and on Compliance*****Internal Control over Financial Reporting***

In connection with our engagement to audit the USTRANSCOM's FY 2018 financial statements, we considered the USTRANSCOM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USTRANSCOM's internal control. Accordingly, we do not express an opinion on the effectiveness of the USTRANSCOM's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We identified certain deficiencies in internal control described in Appendix A that we consider to be material weaknesses.

Compliance

In connection with our engagement to audit the USTRANSCOM's FY 2018 financial statements, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

We did not test compliance with all laws and regulations applicable to the USTRANSCOM. We limited our tests of compliance to those provisions of laws and regulations OMB audit guidance requires that we test and we deemed applicable to the financial statements for the fiscal year ended September 30, 2018. We also performed tests of the USTRANSCOM compliance with provisions referred to in the FFMIA, Section 803(a). We caution that noncompliance may have occurred and may not have been detected by these tests. Our tests of compliance with provisions of laws, regulations, and contracts described above, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB audit guidance.

Under FFMIA, we are required to report whether the USTRANSCOM's financial management systems substantially comply with (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of our tests of FFMIA compliance disclosed instances in which the USTRANSCOM did not substantially comply with applicable accounting standards, and the USSGL at a transaction level. These are described in Appendix B.

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

The USTRANSCOM's Response to Findings

The USTRANSCOM generally concurred with the material weaknesses which are described in Appendix A. The USTRANSCOM's complete response is in Appendix C. See Appendix D for Cotton & Company's response on the USTRANSCOM's comments. The USTRANSCOM's response was not subjected to auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of Other Reporting Required by Government Auditing Standards

The purpose of the "Other Reporting Required by *Government Auditing Standards*" is solely to describe the scope of our limited testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the USTRANSCOM's internal control or on compliance. This other reporting is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering USTRANSCOM's internal control and compliance. Accordingly, this other reporting is not suitable for any other purpose.

COTTON & COMPANY LLP



Matthew Johnson, CPA
Partner
Alexandria, VA
November 15, 2018

APPENDIX A: MATERIAL WEAKNESSES NOTED DURING THE ENGAGEMENT

During our engagement to audit the USTRANSCOM's FY 2018 financial statements, we identified control deficiencies, that when combined, we consider to be five material weaknesses in internal control. These material weaknesses are described in this Appendix.

FINDING 1: INEFFECTIVE CONTROLS OVER INFORMATION TECHNOLOGY (IT)

Systems in our scope included USTRANSCOM-owned general ledger accounting systems and financial feeder systems including the Transportation Financial Management System (TFMS), Commercial Operations Integrated System (COINS), Integrated Booking System, Global Air Transportation Execution System, Global Decision Support System, Standard Procurement System USTRANSCOM Acquisition, and Distribution Component Billing System.

We tested IT controls including security management, access controls, segregation of duties, configuration management (excluding COINS), and contingency planning. We noted the following internal control deficiencies that in combination represent a material weakness.

Security management controls are not in place and operating effectively.

USTRANSCOM does not have effective security management controls in place to help provide reasonable assurance that management is effectively identifying, tracking, and mitigating risks within its IT environment. We noted issues around security management for all systems tested. For example, we noted system security plans and related security documentation for all systems in scope did not include information required by the National Institute of Standards and Technology (NIST). Types of information not present included identification of the system owner, how management determined the system security categorization level (Mission Assurance Category or Federal Information Processing Standards (FIPS)), detailed descriptions of how security controls have been implemented, and information describing system interconnections and segregation of duty (SOD) controls.

Further, USTRANSCOM security management policy and procedures did not include adequate detail on how security controls should be selected for testing or the process management should follow when testing corrective actions for vulnerabilities identified in system Plan of Action & Milestones (POA&Ms). While annual security control testing was performed for all but two systems in scope, we noted formally documented strategies or plans describing how security controls were selected for testing did not exist.

Access controls are not in place and operating effectively.

USTRANSCOM does not have effective access controls in place to help provide reasonable assurance that access to computer resources are appropriately restricted to authorized individuals. We noted issues around access controls for all systems tested. For example, we noted issues around the management of user accounts for all systems in scope. Where DD 2875s, emails, or appointment letters were used to request and approve system access, they were not consistently provided or appropriately completed. When forms were provided, we noted instances where access approved differed from the access granted in the system. Further, we noted instances where forms were approved by individuals other than the user's supervisor, and instances where access request forms appeared to be completed after access was granted. While a process was in place to perform periodic reviews of accounts for six of the seven systems tested, we noted these reviews were not consistently completed or effective for five of the six systems.

We also noted issues around logging and monitoring of security events for all systems in scope. Logging and monitoring policy and procedures were either not documented, did not include adequate detail regarding identifying auditable events, who is responsible for reviewing logs, or how potential events should be investigated, or did not reflect current procedures in place. Further, evidence that logs were reviewed or reviewed in a timely manner, as well as evidence of potential incidents being appropriately investigated, was not consistently provided. Finally, while three of the seven systems in scope rely on the 375th Enterprise Security Support (ESS) to review their security events, the 375th ESS did not have formal policy and procedures in place.

Segregation of duty controls are not in place and operating effectively.

USTRANSCOM does not have effective SOD controls that help provide reasonable assurance that incompatible duties are effectively segregated and compensating controls have been put in place where conflicting roles are granted. We noted SOD issues for six of the seven systems in scope. For example, while procedures are generally in place to document when conflicting roles are requested and approved in a Memorandum for Record (MFR), the MFRs provided did not consistently identify all individuals who had been granted conflicting roles, why conflicting roles were needed, or all of the conflicting roles that had been granted to the user. Further, when conflicting roles had been granted, compensating controls had not been identified or documented.

Configuration management controls are not in place and operating effectively.

USTRANSCOM does not have effective configuration management controls that help provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely. We noted configuration management issues for all six (excluding COINS) financial systems tested. For example while USTRANSCOM had formal configuration management policy and procedures for each of the systems tested, policy and procedures did not consistently include adequate detail to describe all aspects of the configuration management process. Types of information missing included: documentation or change procedures required for different types of changes, requirements around test plans, and how security impact analysis or testing results should be documented.

Further, for all six systems tested, we requested configuration management documentation to determine whether changes implemented in FY 2018 were appropriately requested, tested, and approved. For changes tested, we noted instances where documentation was not provided or fully completed, to demonstrate that changes implemented in FY 2018 were appropriately tested following formal test plans, and test results were formally documented and consistently provided. Finally, we noted instances where changes appeared to be moved into production before formal approval was documented.

Contingency planning controls are not in place and operating effectively.

USTRANSCOM does not have effective contingency planning controls that help provide reasonable assurance that information resources are protected from unplanned interruptions and critical operations are recovered should interruptions occur. We noted issues around contingency planning for all seven systems in scope. For example, contingency planning policy and procedures were not being consistently reviewed, updated where appropriate, and signed off by management. Further, contingency planning documentation did not identify critical business functions, supporting IT resources, or roles and responsibilities around the contingency management process.

Further, while evidence of contingency plan testing was provided for six of the seven systems in scope, evidence that the contingency plan was updated based on the results of testing performed was not provided for four systems in scope.

Criteria used in our testing included:

- NIST Special Publication (SP) 800-18, Revision 1, February 2006, Guide for Developing Security Plans for Federal Information Systems
 - a. Section 13, Minimum Security Controls
 - b. Section 3.3, System Owner
 - c. Section 3.11, System Interconnection/Information Sharing
 - d. Section 3.16, Ongoing System Security Plan Maintenance
 - e. Section 3.4, Authorizing Official

- NIST SP 800-53, Revision 4, updated January 22, 2015, Security and Privacy Controls for Federal Information Systems and Organizations
 - a. Section 2.3, Security Control Baselines
 - b. Section 3.2, Selecting Compensating Security Controls
 - c. PL-2, System Security Plan,
 - d. CA-1, Security Assessment Policy and Procedures
 - e. CA-2, Security Assessments
 - f. AC-2, Account Management
 - g. AU-1, Audit and Accountability Policy and Procedures,
 - h. AU-2, Audit Events
 - i. AU-6, Audit Review, Analysis, and Reporting
 - j. AC-6, Least Privilege
 - k. CP-1, Contingency Planning Policy and Procedures
 - l. CP-2, Contingency Plan
 - m. CP-4, Contingency Plan Testing
- NIST SP 800-34, Revision 1, May 2010, Contingency Planning Guide for Federal Information Systems
 - a. Page 29, Determine mission/business process and recovery criticality
- NIST SP 800-60, Revision 1, August 2008, Guide for Mapping Types of Information and Information Systems to Security Categories
 - a. Section 4.5 Documenting the Security Categorization Process

We noted a number of causes for the weaknesses identified above including:

- USTRANSCOM financial systems have not been completely transitioned from Department of Defense Information Assurance Certification and Accreditation Process (DIACAP) to Risk Management Framework (RMF) which includes more detailed requirements around security management, including the development of a formal system security plan that addresses NIST requirements.
- USTRANSCOM security management policy and procedures are based on DIACAP and only discuss testing and POA&M activities at a high level. Further, these policy and procedures do not require management to document how security controls are selected for testing.
- USTRANSCOM account management, logging and monitoring, SOD, contingency planning, and configuration management policy and procedures have not been fully developed and documented. Further, where policy and procedures exist, USTRANSCOM is not consistently carrying them out.
- USTRANSCOM does not have a formal process in place to verify whether policy and procedures are being effectively carried out.

USTRANSCOM's IT control deficiencies collectively impede its ability to ensure financial transactions and data processed through financial systems are complete, accurate, and appropriately authorized. Further, the deficiencies collectively limit USTRANSCOM's ability to ensure transactions and balances within financial systems are completely and accurately recorded in the general ledger accounting systems and appropriately reported on USTRANSCOM's financial statements.

We recommend USTRANSCOM:

- In consultation with Financial System Program Management continue with its current effort to migrate from DIACAP to RMF. When developing RMF documentation, ensure system security plans at a minimum contain required information including identification of the system owner, how management determined the system security categorization (FIPS level), detailed descriptions of how security controls have been implemented, and information describing system interconnections and SOD controls.

- Update security management policy and procedures to address NIST and RMF requirements and include adequate procedures to ensure security management activities are consistently and effectively carried out.
- In consultation with Financial System Program Management develop or update account management policy and procedures to fully address requirements and describe current activities being carried out.
- In consultation with Financial System Program Management develop or update logging and monitoring policy and procedures to fully address requirements and describe current activities being carried out. At a minimum, logging and monitoring policy and procedures should clearly identify auditable events, who is responsible for reviewing logs, and how potential events should be investigated.
- In consultation with Financial System Program Management develop or update SOD policy and procedures to fully address requirements and describe current activities being carried out. At a minimum, SOD policy and procedures should require compensating controls be identified, documented, and fully implemented when conflicting roles are being granted.
- In consultation with Financial System Program Management develop or update configuration management policy and procedures to fully address requirements and describe current activities being carried out. At a minimum, configuration management policy and procedures should address documentation and change procedures required for different types of changes, requirements around test plan, and how security impact analysis and testing results should be documented.
- In consultation with Financial System Program Management develop or update contingency planning policy and procedures to fully address requirements and describe current activities being carried out. At a minimum, contingency planning policy and procedures should identify critical business functions, supporting IT resources, and roles and responsibilities supporting the contingency management process.
- In consultation with Financial System Program Management, develop, document, and implement a formal process to periodically verify that policy and procedures are being effectively carried out.

FINDING 2: INEFFECTIVE PROCESS TO PROVIDE TRANSACTION LEVEL POPULATIONS TO SUPPORT SIGNIFICANT FINANCIAL STATEMENT LINE ITEMS AND RECONCILE THE POPULATIONS TO REPORTED AMOUNTS

Our engagement to audit the USTRANSCOM's financial statements included procedures to verify whether transaction-level populations as of September 30, 2017, reconciled to all significant account balances included in the FY 2017 financial statements. We requested transaction-level populations, including adjusting journal vouchers (JV) and clearing account (suspense account) transactions, for each significant account balance as of September 30, 2017. We also requested a reconciliation (validation) between the populations and the related amounts reported for the Air Mobility Command (AMC), USTRANSCOM Command Staff (CMD), Defense Courier Division (DCD), Military Sealift Command (MSC) and Surface Deployment and Distribution Command (SDDC) components as of September 30, 2017.

During our review of these populations and validations, we noted the following:

- For 126 of the 267 account balance and 11 of the 21 JV populations requested, USTRANSCOM either did not provide a population by the established cutoff date, or provided a population that did not meet the requirement. In addition, USTRANSCOM did not provide three populations.
- For 78 of the 267 account balance and four of the 21 JV populations requested, USTRANSCOM did not provide populations that met the requirements. Specific issues identified included:
 - The account related to balances, but the population provided activity rather than balances;
 - The population did not include all required activity or balances recorded in the account;
 - The population included summarized detail rather than transaction-level detail; and
 - The request was for a subset of activity, but the population included all activity and management did not provide instructions to identify the relevant subset.
- For 17 of the 267 account balance and seven of the 21 JV populations requested, USTRANSCOM did not provide a validation between the population and the reported amounts.

- For 99 of the 267 account balance and two of the 21 JV populations requested, USTRANSCOM did not provide sufficient validation. Specific issues identified included validations that:
 - Included a quantitative drill-down from the general ledger accounting system to the Defense Departmental Reporting System-Budgetary and to the Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS) but not the population;
 - Did not explain the variance between the population and the general ledger accounting system or between the general ledger accounting system and the reported amount; and
 - Included the population and the general ledger accounting system balances but did not include the reported amount.
- For 107 of the 267 account balance and two of the 21 JV populations requested, the populations did not reconcile to the reported amounts. USTRANSCOM did not identify or explain reconciling items for 77 of the 107 account balances or for either JV population. In addition, for three of the 21 JV populations requested, USTRANSCOM did not provide sufficient documentation to enable us to determine whether the population reconciled to the reported amounts.

Section 2.C.4.1, Wave 4 Key Capabilities, Capability Measures, and Success Criteria, of the April 2017 revision of the Financial Improvement and Audit Readiness (FIAR) Guidance states that an entity must be able to “identify a complete transaction population, which is reconciled to the general ledger and financial statements.” The reporting entity must be able to “demonstrate that the sum of the transactions agrees to the general ledger, the trial balance, and/or the financial statement balance for the assertion period.... Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries”. Section 4.A.6 requires that reconciliations, transaction populations, and supporting documentation be provided in a timely manner.

USTRANSCOM does not have a process in place to timely provide populations that support each significant account balance as of the requested date, and to reconcile, identify and explain variances between the populations and the reported amounts. Additionally, USTRANSCOM did not provide sufficient oversight of each component in their efforts to timely generate and reconcile populations to the reported amounts.

As a result of the conditions noted, populations for 99 of the 267 account balances and 5 of the 21 journal voucher populations were not suitable for testing. In addition, the untimely receipt of requested populations resulted in delays in completing population reconciliation audit procedures, a key part of the audit. Of the FY 2017 ending balances presented on the Consolidated Balance Sheet as of September 30, 2017, we were unable to test or conclude on 100 percent of the Accounts Receivable, Net and Accounts Payable line items; 51 percent of the General Property, Plant and Equipment, Net line item; and 26 percent of the Other Liabilities line item. Of the FY 2017 ending balances presented on the Combined Statement of Budgetary Resources as of September 30, 2017, we were unable to test or conclude on 100 percent of the Unpaid Obligations, End of Year and Uncollected Payments, Federal Sources, End of Year line items. As such, we were unable to test or conclude on the related FY 2018 opening balances.

We recommend:

- USTRANSCOM, in coordination with each component and the Defense Finance and Accounting Service (DFAS), continue its implementation of the corrective actions already underway to timely provide populations that support each significant account balance as of the requested date, and to reconcile, identify and explain variances between the populations and the reported amounts;
- AMC, CMD and DCD, in coordination with USTRANSCOM and DFAS, determine whether a restatement to FY 2018 beginning balances is necessary based on the variances previously identified between the Defense Enterprise Accounting and Management System (DEAMS) and the General Accounting and Finance System-Reengineered; and
- USTRANSCOM strengthen its oversight role of each component in their efforts to timely generate and reconcile populations to the reported amounts.

FINDING 3: INEFFECTIVE CONTROLS OVER FINANCIAL REPORTING

During our engagement to audit the FY 2018 financial statements, we identified several control deficiencies that aggregate to a material weakness in internal control over financial reporting. Specifically, we identified the following areas in which financial reporting controls are not effective and need improvement:

1. Controls to ensure the completeness and accuracy of USTRANSCOM's transactions and account balances in the general ledger accounting system are not in place or are not operating effectively.
2. Controls over the preparation of the financial statements, including USTRANSCOM's controls over its service provider, are not effective.
3. Controls over JVs need improvement.

We provide details of these deficiencies below.

1. Controls to ensure the completeness and accuracy of USTRANSCOM's transactions and account balances in the general ledger accounting system are not in place or are not operating effectively.

USTRANSCOM does not have assurance that transactions and balances are completely and accurately recorded in its general ledger accounting systems or in DDRS, and that activity and balances are completely and accurately reported on USTRANSCOM's financial statements. During our engagement we noted the following:

- Known USTRANSCOM TWCF payment and collection activity reported in Department of the Air Force suspense accounts is not reported on USTRANSCOM's TWCF financial statements. In addition, USTRANSCOM and DFAS are unable to determine whether other payment and collection activity recorded in any of the Departments of the Air Force, Army, or Navy suspense accounts or the Defense-wide suspense accounts pertains to USTRANSCOM or other entities;
- The DEAMS to DDRS interface strategy is not effective and USTRANSCOM did not provide sufficient evidence and explanation to determine whether the DEAMS to DDRS interface is designed and implemented effectively; and
- USTRANSCOM is unable to provide assurance that all account balances from the AMC, CMD, and DCD DEAMS trial balances are complete and accurate.

We also noted ineffectively designed controls and gaps in the components' processes and controls to:

- Calculate, record and monitor certain significant accruals, including civilian payroll leave accruals, revenue accruals related to the Channel Passenger and Channel Cargo lines of business; and accounts payable accruals related to vendor contracts;
- Ensure the completeness and accuracy of recorded obligations and payroll expenses in the general ledger accounting systems;
- Ensure the existence, accuracy, completeness and rights to recorded unfilled customer orders based on the receipt and acceptance of customer orders, and ensure the existence, occurrence, completeness, and rights to recorded revenue and receivables based on customer billings;
- Identify capitalized software and minor construction project costs for completed projects and to timely and accurately create the related capitalized asset record in the accounting system;
- Ensure the completeness of recorded capitalized assets in the general ledger accounting system, and ensure that disposals of capitalized assets are timely recorded in the accounting system;
- Monitor whether activity recorded in DEAMS modules is correctly processed in the DEAMS general ledger; and
- Reconcile the MSC Financial Management System (MSC-FMS) trial balance to the amounts reported in the financial statements.

The United States Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (2014) Control Activities Principle 10 states "Management should design control activities to achieve objectives and respond to risks." Attribute 10.03 Design of Appropriate Types of Control Activities provides explanation for management to design appropriate types of control activities for the entity's internal control system.

Principle 3 states, "Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives." Attribute 3.10 provides explanation for management to establish effective documentation to assist in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel.

DoD Regulation 7000.14-R, *Department of Defense Financial Management Regulation* (DoD FMR), Volume 6A, Chapter 2, Section 020101, Subsection B specifies DoD Components' responsibility for:

1. Ensuring the accuracy, completeness, timeliness, and documentary support for all data generated and input into finance and accounting systems;
2. Establishing, maintaining, and reviewing appropriate internal controls;
3. Reviewing all DFAS generated reports to assess the accuracy of reported financial information; and
4. Performing program and management analyses on the information contained in the financial reports.

Causes of these conditions include:

- USTRANSCOM and DFAS have not designed and implemented policies and procedures requiring internal control activities to assess the materiality of suspense account balances, reconcile suspense account balances, and determine whether activity reported in the Departments of the Air Force, Army, or Navy suspense accounts or Defense-wide suspense accounts pertains to the TWCF for inclusion in the USTRANSCOM financial statements;
- USTRANSCOM, DFAS, and the DEAMS Program Management Office (PMO) do not have sufficient comprehensive narratives documenting the interface strategy, design, and implementation of the DEAMS to DDRS interface and USTRANSCOM does not have an effective audit response process in place to gain assurance that all account balances from the AMC, CMD, and DCD DEAMS trial balances are complete and accurate;
- Processes to calculate and record certain significant accruals, and document, monitor and assess the appropriateness of the accrual methodologies are not in place or not fully developed;
- A process for the project managers to notify the asset accountant at the time a software or minor construction project is complete is not in place; and
- Reconciliations between detail-level feeder systems and general ledger modules and the general ledger accounting systems and financial statements are not yet designed and implemented, are not yet fully implemented or require strengthening to improve their effectiveness.

USTRANSCOM's control deficiencies and gaps collectively impede its ability to ensure that all transactions that have occurred and balances that exist are recognized and completely and accurately recorded in the general ledger accounting systems and reported on USTRANSCOM's financial statements.

We recommend USTRANSCOM and its components:

- In coordination with the Under Secretary of Defense (Comptroller), and DFAS-Columbus, develop and implement policies and procedures for the analysis and identification of USTRANSCOM payment and collection activity reported in the Departments of the Air Force, Army, or Navy suspense accounts and Defense-wide suspense accounts for inclusion in the USTRANSCOM TWCF financial statements; and conduct a root cause analysis to determine which specific business processes and activities give rise to the need to

report activity in suspense accounts and implement corrective measures to reduce the use of suspense accounts;

- In coordination with DFAS and the DEAMS PMO, develop, document, and implement sufficient comprehensive narratives documenting the interface strategy, design, and implementation of the DEAMS to DDRS interface and in coordination with AMC, CMD, and DCD, continue to strengthen its audit response process to gain assurance that all account balances from the AMC, CMD, and DCD DEAMS trial balances are complete and accurate;
- Continue its progress in designing and implementing accrual methodologies to calculate and record certain significant accruals, document accrual methodologies and the key assumptions used in estimating accrual amounts, and strengthen its overall process for monitoring and assessing the appropriateness of the accrual methodologies;
- Design and implement a periodic and routine reporting process for the project managers to notify the asset accountant of the status of ongoing software and minor construction projects; and
- Continue its progress in designing, implementing and strengthening reconciliations between detail-level feeder systems and general ledger modules and the general ledger accounting systems and financial statements. Where reconciliations have not been designed, determine the extent to which these reconciliations can be designed and implemented and the extent to which other control activities can be leveraged to help ensure the completeness and accuracy of recorded transactions in the general ledger accounting systems.

2. Controls over the preparation of the financial statements, including USTRANSCOM's controls over its service provider, are not effective.

USTRANSCOM and its components have control deficiencies over the preparation of the financial statements, including USTRANSCOM's controls over its service provider. During our engagement we noted the following:

- USTRANSCOM has not designed and implemented a reconciliation of the footnotes to the financial statements and the adjusted trial balance;
- USTRANSCOM and its components have not fully identified and documented controls over the financial statement preparation process;
- USTRANSCOM's quarterly consolidated variance analysis is not effectively designed to perform the analysis at the DDRS-AFS general ledger account code level;
- Controls to ensure that USTRANSCOM's TWCF financial statements and related footnotes contain all information needed for fair presentation in accordance with U.S. GAAP are in place, but are not effectively designed;
- USTRANSCOM did not provide adequate support to enable us to conclude if USTRANSCOM's FY 2017 DEAMS ending account balances were closed in conformity with the USSGL;
- USTRANSCOM's FY 2017 MSC-FMS and TFMS ending account balances were not closed in conformity with the USSGL;
- USTRANSCOM and its components' oversight of DFAS financial reporting and Fund Balance with Treasury (FBWT) processes needs improvement. Specifically we noted:
 - USTRANSCOM did not have a valid JV Memorandum of Understanding or Memorandum of Agreement (MOA) in place for the period October 1, 2017, to June 10, 2018;
 - The new JV MOA establishes the same JV approval threshold for all USTRANSCOM components instead of establishing JV approval thresholds at dollar values appropriate for each USTRANSCOM component;
 - There is no evidence that USTRANSCOM reviews and approves the reconciliations performed by DFAS;

- USTRANSCOM and its AMC, CMD, and DCD components do not have processes in place to monitor the Merged Accountability and Fund Reporting reconciliations performed by DFAS to ensure the occurrence, accuracy, and completeness of recorded FBWT activity; and
- The USTRANSCOM TWCF financial statement reporting package does not conform to the requirements of the OMB Circular A-136, the DoD FMR, and FASAB Statement of Federal Financial Accounting Standards (SFFAS) 15 *Management's Discussion and Analysis*.

DoD FMR 7000.14-R, Volume 6A, Chapter 2, Section 020101, Subsection B specifies DoD Components' responsibility for:

1. Ensuring the accuracy, completeness, timeliness, and documentary support for all data generated and input into finance and accounting systems;
2. Establishing, maintaining, and reviewing appropriate internal controls;
3. Reviewing all DFAS generated reports to assess the accuracy of reported financial information; and
4. Performing program and management analyses on the information contained in the financial reports.

The GAO *Standards for Internal Control in the Federal Government* (2014), Principle 3 states, "Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives." Attribute 3.10 provides explanation for management to establish effective documentation to assist in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Attribute 3.11 provides explanation for management to document internal controls to meet operational needs.

Section 5.D.4, Wave 4 Key Capabilities, Capability Measures, and Success Criteria, of the April 2017 revision of the FIAR Guidance states that Financial Reporting is the process for ensuring the completeness and accuracy of the data provided for the DoD Agency Financial Report, including proper and adequate note disclosures. Financial Reporting addresses the presentation and disclosure assertion for all financial statement line items. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for adequate and proper financial statement note disclosures. All reporting entities must be able to assert to the audit readiness of all business processes and subprocesses associated with Financial Reporting, including proper note disclosure and general ledger recording.

The FFMIA, Section 803, Subsection A states that: "Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."

OMB Circular No. A-136, *Financial Reporting Requirements*, provides required content of Agency Financial Reports and Performance and Accountability Reports.

Several factors caused these conditions, including:

- USTRANSCOM has not designed and implemented a process to reasonably ensure that the footnotes accompanying the TWCF financial statements agree to the DDRS-AFS trial balance and TWCF financial statements;
- USTRANSCOM and its components have not completely designed, documented, and implemented a formal financial statement preparation process, and are currently evaluating gaps, and designing and implementing financial reporting processes;
- USTRANSCOM has not designed an effective quarterly USTRANSCOM consolidated variance analysis to help ensure that any significant fluctuations in the consolidated USTRANSCOM DDRS-AFS trial balance are identified, explained, and corrected if necessary;
- USTRANSCOM has not designed an effective process to ensure that USTRANSCOM's GAAP/Office of the Secretary of Defense (OSD) Standard Guideline Checklist is prepared completely and accurately;

- USTRANSCOM and its AMC, CMD, and DCD components do not have an effective audit response process in place to identify, accumulate, retain and provide for examination sufficient evidential documentation in support of its compliance with USSGL for transactions recorded in DEAMS;
- USTRANSCOM and its MSC and SDDC components' controls over the MSC-FMS and TFMS year-end closing entries are not operating effectively to help ensure MSC-FMS and TFMS ending account balances are closed in conformity with the USSGL;
- USTRANSCOM and its components have not fully developed and implemented procedures for the oversight of DFAS financial reporting and FBWT processes, including review, approval, and monitoring of JVs recorded in USTRANSCOM accounting systems and reconciliations performed by DFAS; and
- USTRANSCOM has not designed an effective process to prepare the USTRANSCOM TWCF financial statement reporting package and help ensure that the reporting package conforms to the requirements of OMB Circular A-136, the DoD FMR, and FASAB standards.

USTRANSCOM and its components' control deficiencies over the preparation of the financial statements impede its ability to ensure that its financial statements are complete and accurate. As a result:

- There is an increased risk that USTRANSCOM's financial statement reporting package, including its accompanying footnotes, may not contain all elements required by OMB Circular A-136, the DoD FMR, and FASAB standards and may contain misstatements that are not detected and corrected;
- USTRANSCOM and its components may not be able to demonstrate to internal and external parties that it has documented and repeatable processes and controls over the preparation of its financial statements.

We recommend:

- USTRANSCOM develop, document, and implement a process to reasonably ensure the footnotes accompanying the TWCF financial statements agree to the DDRS-AFS trial balance and TWCF financial statements.
- USTRANSCOM and its components finalize, and implement its financial statement preparation process narratives.
- USTRANSCOM enhance, document, and implement procedures for the quarterly USTRANSCOM consolidated variance analysis to include performing the analysis at the DDRS-AFS general ledger account code level.
- USTRANSCOM develop, document, and implement a process to ensure that USTRANSCOM's GAAP/OSD Standard Guideline Checklist is prepared completely and accurately.
- USTRANSCOM and its AMC, CMD, and DCD components continue to strengthen its audit response process to identify, accumulate, retain and provide for examination sufficient evidential documentation in support of its compliance with USSGL for transactions recorded in DEAMS.
- USTRANSCOM and its MSC and SDDC components strengthen, document, and implement its internal controls over the MSC-FMS and TFMS year-end closing processes to help ensure MSC-FMS and TFMS ending account balances are closed in conformity with the USSGL.
- USTRANSCOM and its components enhance, document, and implement procedures for the oversight of DFAS financial reporting and FBWT processes.
- USTRANSCOM, in coordination with its components and DFAS, design, implement, and document procedures for the preparation of the USTRANSCOM TWCF financial statement reporting package to help ensure that the reporting package conforms to the requirements of OMB Circular A-136, the DoD FMR, and FASAB standards.

3. Controls over journal vouchers need improvement.

USTRANSCOM and its components have deficiencies in its controls to record JVs in its general ledger and financial reporting systems. We tested a total of 60 JVs and found control deficiencies and/or insufficient supporting documentation for 44 JVs. We noted instances where USTRANSCOM and its components:

- Did not properly review and approve JVs;
- Did not provide sufficient evidential matter to evidence that JVs were supported;
- Did not provide sufficient evidential matter for us to determine if the JVs were properly reviewed and approved or supported; and
- Recorded JVs as unsupported entries.

The GAO *Standards for Internal Control in the Federal Government* (2014) Control Activities Principle 10 states "Management should design control activities to achieve objectives and respond to risks." Attribute 10.03 Design of Appropriate Types of Control Activities provides explanation for management to design appropriate types of control activities for the entity's internal control system.

DoD FMR 7000.14-R, Volume 6a, Chapter 2, Section 020208, Sub-Section C specifies that JVs may be prepared at the installation (execution) or departmental (reporting) level and must be documented to support the validity and the amount of the transaction and authorized, approved, and documented at the appropriate level of management or designee.

USTRANSCOM and its components do not have an effective audit response process in place to identify, accumulate, retain and provide for examination sufficient evidential documentation in support of its JV recorded in its general ledger and financial reporting systems. In addition, USTRANSCOM and its components' controls over the review and approval of JVs are not operating effectively to help ensure appropriate and accurate adjustments are made to its general ledger and financial reporting systems.

USTRANSCOM and its components' control deficiencies over JVs collectively impede its ability to evidence that JVs recorded in its general ledger and financial reporting systems were appropriate, accurate, supported, and properly reviewed and approved. As a result, there is an increased risk that USTRANSCOM's financial statements contain misstatements.

We recommend USTRANSCOM and its components:

- Continue to strengthen its audit response process to identify, accumulate, retain and provide for examination sufficient evidential documentation in support of its JVs recorded in its general ledger and financial reporting systems; and
- Strengthen, document, and implement internal control over its review and approval of JVs to help ensure appropriate and accurate adjustments are made to its general ledger and financial reporting systems.

FINDING 4: INEFFECTIVE TRANSACTIONAL CONTROLS

USTRANSCOM had pervasive transactional control deficiencies related to transactions and account balances involving new and open obligations and unfilled customer orders; accounts payable and accounts receivable; operating expenses and earned revenue; disbursements and collections, including undistributed transactions; property, plant and equipment; and civilian payroll. Of the 540 transactions and balances we tested, 59 percent were missing key supporting documentation and 21 percent evidenced control deviations or substantive errors. We noted that USTRANSCOM and its components did not always provide:

- General ledger detail and/or screenshots to demonstrate the posting of the transaction and related entries, or the general ledger detail provided was not always sufficient to determine if the posting logic of the sampled transaction is in compliance with the USSGL Account Transactions;

- Invoices and/or receiving reports to evidence that the expense was incurred and to support the accounts payable balance, and the documentation provided did not always contain evidence as to when the expense was incurred;
- Obligor documents, evidence of approval of the obligation, or documentation to support the validity or accuracy of the obligation;
- Evidence of the collection voucher or payment record to show the collection or disbursement occurred and was certified;
- Sufficient documentation to determine the nature of the transaction to identify which USSGL Account Transaction code should have been used and if the posting logic of the sampled transaction is in compliance with the USSGL Account Transactions;
- Sufficient detail and/or explanation to identify the sampled transaction within the documentation provided;
- Sufficient documentation to demonstrate that services were requested, or that services were performed and the date services were provided, and to support the accounts receivable balance;
- Evidence to support USTRANSCOM's authority to accept a customer order;
- Invoices and/or receiving reports to support the nature of the capitalized costs recorded in the Internal-Use Software in Development account, or the invoices and/or receiving reports provided did not contain sufficient information to determine the nature of the costs and whether the costs are linked to a software project that is expected to meet the capitalized threshold;
- Invoices, receiving reports and/or other historical cost evidence to support the capitalized costs of Buildings, Improvements, and Renovations assets, Other Structures and Facilities assets, and General Equipment assets;
- Evidence of the in-service date or useful life of assets, confirmation that the assets are still used for the TWCF mission, and evidence that the assets physically exist; and
- Sufficient evidence to demonstrate, for civilian payroll transactions, that an employee/supervisor relationship existed during the pay period and to demonstrate the payroll expense was recorded in the correct accounting period based on the pay period end date.

We also found control deviations and substantive errors related to:

- Transactions not recorded timely, or in the correct accounting period, or in the same fiscal year as actually incurred;
- Transactions and balances not recorded at the accurate amount based on the supporting documentation provided;
- Transactions not recorded in the correct general ledger accounts, with the correct line of accounting or in compliance with the USSGL Account Transactions;
- Accounts payable balances that are not valid liabilities of USTRANSCOM, and open obligations and unfilled customer order balances that are not valid;
- Transactions recorded in the general ledger system before the voucher was certified by an authorized certifying officer;
- Undistributed collection and disbursement transactions that remain unresolved and that have not been recorded in the general ledger system;
- Collection transactions that were not certified or signed, were recorded in the general ledger prior to the receipt of funds, or that were certified by an individual who did not have sufficient and appropriate delegated authority;
- Capitalized Internal-Use Software in Development costs that should have been expensed rather than capitalized; and

- Payroll expenses, supported by timesheets that were not properly approved because the employee/supervisor relationship was not effective during the pay period.

Section 2.C.4.1, Wave 4 Key Capabilities, Capability Measures, and Success Criteria, of the April 2017 revision of the FIAR Guidance states that reporting entities must track and achieve key capabilities for the financial statement line items. Specifically, an entity must be able "to retain and make readily available supporting documentation to meet audit standards. Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all line items."

The GAO *Standards for Internal Control in the Federal Government* (2014) Control Activities Principle 10 states "Management should design control activities to achieve objectives and respond to risks." Attribute 10.03 Design of Appropriate Types of Control Activities provides explanation for management to design appropriate types of control activities for the entity's internal control system.

The FFMIA, Section 803, Subsection A states that "Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."

DoD FMR 7000.14-R, "DoD Financial Management Regulation," Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," requires a triannual review of commitments, unliquidated obligations, accounts payable, unfilled customer orders, and accounts receivable. The triannual review process is an internal control practice whereby the funds holder reviews commitments, unliquidated obligations, accounts payable, unfilled customer orders, and accounts receivable transactions for validity, accuracy and completeness.

Several factors caused these conditions, including:

- USTRANSCOM and its components do not have an effective audit response process in place to identify, accumulate, retain and provide for examination sufficient evidential documentation in support of its reported transactions and balances;
- Ineffective operation of control activities to help ensure the existence or occurrence, completeness, accuracy and rights or obligations to recorded transactions and balances;
- Constraints in the general ledger accounting system posting logic to identify and record at a transaction level upward and downward adjustments to prior year obligations; and
- USTRANSCOM's triannual review process to determine the validity, accuracy and completeness of open commitments, unliquidated obligations, accounts payable, unfilled customer orders, and accounts receivable is not effectively designed or operating effectively such that USTRANSCOM can determine whether unliquidated obligation, accounts payable, accounts receivable and unfilled customer order balances are valid, accurate and complete.

USTRANSCOM's transactional control deficiencies collectively impede its ability to substantiate amounts presented on its financial statements, and to ensure that reported transactions occurred and balances exist, are complete and accurately recorded in accordance with the USSGL at the transaction level, and represent valid assets, liabilities, and obligations of USTRANSCOM.

We recommend USTRANSCOM and its components:

- Continue to strengthen its audit response process to identify, accumulate, retain and provide for examination sufficient evidential documentation in support of its reported transactions and balances. In designing and implementing these process improvements, USTRANSCOM and its components should identify, design and implement control activities to help achieve appropriate documentation of transactions and help to ensure all transactions and other significant events are documented and that supporting documentation is retained in a manner that allows the documentation to be readily available for examination;

- Strengthen its internal control activities to help ensure the existence or occurrence, completeness, accuracy and rights or obligations to recorded transactions and balances;
- Design and implement system logic changes in the general ledger accounting system to allow for the identification and recording at a transaction level upward and downward adjustments to prior year obligations, and modify posting logic to comply with USSGL Account Transactions; and
- Continue its implementation of corrective actions to address the recommendations in Report No. DODIG 2017-108, "United States Transportation Command Triannual Reviews". In designing and implementing these corrective actions, USTRANSCOM and its components should determine whether its triannual review processes and procedures promote the timely execution of all required decommitments, deobligations, adjustments or corrections identified by the funds holders, and the timely recording of the deobligation, decommitment, or adjustment(s) in the general ledger.

FINDING 5: INEFFECTIVE BUDGETARY CONTROLS

During our testing of annual operating budgets and funds realignment requests, we noted instances in which sufficient evidential matter was not provided to support the approval of funds realignment requests and to determine whether contract authority and spending authority from offsetting collections were accurately recorded in the general ledger accounting system. In addition, we identified a significant difference between the AMC component's annual operating budget and entries recorded in the general ledger accounting system for spending authority from offsetting collections due to an adjustment that the component made to increase its reimbursable authority in the accounting system.

Section 2.C.4.1, Wave 4 Key Capabilities, Capability Measures, and Success Criteria, of the April 2017 revision of the FIAR Guidance states that reporting entities must track and achieve key capabilities for the financial statement line items. Specifically, an entity must be able "to retain and make readily available supporting documentation to meet audit standards. Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all line items."

The GAO *Standards for Internal Control in the Federal Government* (2014) Control Activities Principle 10 states "Management should design control activities to achieve objectives and respond to risks." Attribute 10.03 Design of Appropriate Types of Control Activities provides explanation for management to design appropriate types of control activities for the entity's internal control system.

Causes of these conditions include:

- USTRANSCOM and its components do not have an effective audit response process in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation in support of its funds realignment requests and recorded contract authority and spending authority from offsetting collections; and
- The Financial Mission Operations Branch end of month control to verify that recorded budget authority in the accounting system agrees with the most current internal annual operating budget is not operating effectively. Also control activities to achieve proper execution of transactions are not operating effectively to ensure budget authority is recorded based upon an approved annual operating budget.

As a result of the conditions noted, USTRANSCOM's funds realignment requests may not have been properly approved. Additionally, USTRANSCOM's recorded budget authority may not be the same as the internal annual operating budgets, may not be available for obligation, may not reflect all budget authority made available for obligation, and may not be recorded at correct amounts. In addition USTRANSCOM may not have rights to recorded budgetary resources at a given date.

We recommend:

- USTRANSCOM and its components continue to strengthen its audit response process to identify, accumulate, retain and provide for examination sufficient evidential documentation in support of its funds realignment requests and recorded contract authority and spending authority from offsetting collections
- The Financial Mission Operations Branch, in coordination with the components, strengthen its end of month control to verify that recorded budget authority in the accounting system agrees with the most current internal annual operating budget. The Financial Mission Operations Branch should also consider whether implementation of a preventative control, such as requiring review and approval of adjustments to a components' recorded budget authority in its general ledger accounting system, is necessary to help ensure budget authority is recorded based upon an approved annual operating budget and internal operating budgets;
- The Financial Mission Operations Branch, in coordination with the Staff Judge Advocate, determine if the adjustment to the AMC component's budget authority in its general ledger accounting system without an approved annual operating budget constitutes a violation of the Antideficiency Act, 31 U.S.C. § 1341; and
- The AMC component analyze its business processes to determine the root causes for why it is exceeding operating authority and develop and implement process changes to mitigate the risk of continuing to exceed operating authority.

APPENDIX B: NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA) NOTED DURING THE ENGAGEMENT

Under FFMIA we are required to report whether USTRANSCOM's financial management systems substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the USSGL at the transaction level. We identified instances in which USTRANSCOM's financial management systems did not comply substantially with certain Federal accounting standards and the USSGL at the transaction level.

1. **Federal accounting standards.** As discussed in the material weakness, *Ineffective Controls over Financial Reporting* (Appendix A, Finding 3), the USTRANSCOM's financial statement reporting package does not conform to the requirements of the OMB Circular A-136, the DoD FMR, and FASAB standards. Specifically, USTRANSCOM's omission of RSI from its financial statements is not in compliance with Federal Accounting Standards. SFFAS 15 states that "A report that presents a Federal reporting entity's financial statements in conformance with Federal accounting principles should include management's discussion and analysis (MD&A) of the financial statements and related information."
2. **Noncompliance with USSGL posting logic at the transaction level.** As discussed in the material weaknesses *Ineffective Controls over Financial Reporting* (Finding 3), and *Ineffective Transactional Controls* (Finding 4), described in Appendix A, we noted instances of USSGL nonconformance when the USTRANSCOM or its components:
 - Recorded construction-in-progress and software-in-development to a clearing account rather than the proper USSGL account.
 - Recorded upward and downward adjustments to prior year undelivered/delivered orders inconsistent with the USSGL.
 - Recorded closing entries that were not in conformity with the USSGL.

In addition, other instances of noncompliance with USSGL posting logic were identified, as discussed in Appendix A.

Specific recommendations for corrective actions necessary to ensure compliance with applicable Federal accounting standards, and the USSGL at the transaction level are provided for in Appendix A.

APPENDIX C: USTRANSCOM's RESPONSE



UNITED STATES TRANSPORTATION COMMAND

508 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

November 14, 2018

MEMORANDUM FOR COTTON & COMPANY

FROM: USTRANSCOM/J8
203 W LOSEY STREET
SCOTT AFB IL 62225-5233

SUBJECT: USTRANSCOM Financial Statement Audit – Management Response to the Fiscal Year (FY) 2018 Independent Auditors' Report

References: Fiscal Year 2018 Independent Auditors' Report

1. We would like to thank Cotton & Company for your efforts and professionalism during the FY 2018 USTRANSCOM Financial Statement Audit. We also appreciate the opportunity to respond to the Draft Independent Auditors' Report provided on November 13, 2018.
2. We generally concur with the findings identified in the Independent Auditors' Report, as the final Notice of Findings and Recommends (NFR)s were received November 9, 2018 and USTRANSCOM has not reviewed all NFRs. We will prepare our corrective action plans to address all findings. We acknowledge the material weaknesses identified and will continue to focus our efforts on resolving the deficiencies.
3. We are committed to furthering our audit readiness efforts and improving the accuracy of our financial reporting. The results of our corrective action plans and continued auditability efforts will help us progress toward resolving longstanding financial statement weaknesses and to identify risks to the FY 2019 financial statement audit. We look forward to working with Cotton & Company in future financial statement audits.

A handwritten signature in blue ink, reading "ER Newcome", is positioned above the typed name.

EDWIN R. NEWCOME
Acting Director, Program Analysis
and Financial Management

APPENDIX D: AUDITOR COMMENTS ON USTRANSCOM'S RESPONSE

USTRANSCOM generally concurred with the five material weaknesses; however, it did not receive the final set of Notices of Findings and Recommendations (NFRs) until November 9, 2018, and therefore had not reviewed these NFRs. Cotton & Company provided 89 percent of the NFRs to USTRANSCOM prior to November 9, 2018. Throughout the audit, we conducted status meetings and in-process review briefings with USTRANSCOM management and other stakeholders; these meetings and briefings included discussions of potential findings. This ongoing communication provided an opportunity for all parties to come to a mutual understanding of deficiencies noted during the engagement and for USTRANSCOM to commence corrective actions as we identified deficiencies. We will continue to communicate with USTRANSCOM and identify additional methods of providing timely feedback to USTRANSCOM during the audit process.

DEFENSE FINANCE AND ACCOUNTING SERVICE



4Q18 UNAUDITED FINANCIAL STATEMENTS OF THE UNITED STATES TRANSPORTATION COMMAND AS OF: SEPTEMBER 30 , 2018

STATEMENT CONTENTS

- I. Consolidated Balance Sheet (BS)
- II. Consolidated Statement of Net Cost (SNC)
- III. Consolidated Statement of Changes in Net Position (SCNP)
- IV. Combined Statement of Budgetary Resources (SBR)
- V. Consolidating Balance Sheet
- VI. Consolidating Statement of Net Cost
- VII. Consolidating Statement of Changes in Net Position
- VIII. Combining Statement of Budgetary Resources
- IX. Footnotes

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATED BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

	2018 Consolidated	2017 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	\$ 526,606,104.13	\$ 856,108,538.17
3. Accounts Receivable (Note 5)	1,606,651,694.81	1,206,570,731.61
5. Total Intragovernmental Assets	\$ 2,133,257,798.94	\$ 2,062,679,269.78
C. Accounts Receivable, Net (Note 5)	39,642,495.53	190,157,728.62
F. General Property, Plant and Equipment, Net (Note 10)	299,019,800.32	527,895,012.29
H. Other Assets (Note 6)	978,812.43	2,056,167.93
2. TOTAL ASSETS	\$ 2,472,898,907.22	\$ 2,782,788,178.62
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 40,178,295.08	\$ 86,269,812.29
3. Other Liabilities (Note 15 & 16)	43,198,906.34	14,409,913.51
4. Total Intragovernmental Liabilities	\$ 83,377,201.42	\$ 100,679,725.80
B. Accounts Payable (Note 12)	\$ 579,960,397.29	\$ 644,392,661.79
C. Military Retirement and Other Federal Employment Benefits (Note 17)	17,583,487.58	17,246,101.51
F. Other Liabilities (Note 15 & Note 16)	63,657,900.16	34,077,099.11
5. TOTAL LIABILITIES	\$ 744,578,986.45	\$ 796,395,588.21
6. COMMITMENTS AND CONTINGENCIES (NOTE 16)		
7. NET POSITION		
B. Unexpended Appropriations - Other Funds	25,587,243.00	28,747,600.00
D. Cumulative Results of Operations - Other Funds	1,702,732,677.77	1,957,644,990.41
8. TOTAL NET POSITION	\$ 1,728,319,920.77	\$ 1,986,392,590.41
9. TOTAL LIABILITIES AND NET POSITION	\$ 2,472,898,907.22	\$ 2,782,788,178.62

Other Defense Activities - Tier 2 - US Transportation Command

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2018 and 2017

	2018 Consolidated	2017 Consolidated
1. Program Costs		
A. Gross Costs	\$ 7,096,176,024.02	\$ 6,673,281,663.65
Operations, Readiness & Support	7,096,176,024.02	6,673,281,663.65
B. (Less: Earned Revenue)	(7,115,374,621.68)	(6,757,153,493.50)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(19,198,597.66)	(83,871,829.85)
E. Net Program Costs Including Assumption Changes	(19,198,597.66)	(83,871,829.85)
2. Net Cost of Operations	<u>\$ (19,198,597.66)</u>	<u>\$ (83,871,829.85)</u>

Other Defense Activities - Tier 2 - US Transportation Command

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2018 and 2017

	2018 Consolidated	2017 Consolidated
UNEXPENDED APPROPRIATIONS:		
1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	\$ 28,747,600.00	\$ 31,561,454.00
3. Beginning balances, as adjusted	28,747,600.00	31,561,454.00
4. Budgetary Financing Sources:		
4.D. Appropriations used	(3,160,357.00)	(2,813,854.00)
5. Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	(3,160,357.00)	(2,813,854.00)
6. Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	25,587,243.00	28,747,600.00
CUMULATIVE RESULTS OF OPERATIONS:		
7. Beginning Balances	1,957,644,990.41	1,821,913,718.36
8. Prior Period Adjustments:		
8.A. Changes in accounting principles (+/-)	(82,088,566.69)	0.00
9. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	1,875,556,423.72	1,821,913,718.36
10. Budgetary Financing Sources:		
10.B. Appropriations used	3,160,357.00	2,813,854.00
10.C. Nonexchange revenue	73,822.16	2,683.40
11. Other Financing Sources (Nonexchange):		
11.B. Transfers-in/out without reimbursement (+/-)	75,085.83	40,112,587.35
11.C. Imputed financing from costs absorbed by others	15,606,149.97	9,966,978.55
11.D. Other (+/-)	(210,937,758.57)	(1,036,661.10)
12. Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	(192,022,343.61)	51,859,442.20
13. Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	(19,198,597.66)	(83,871,829.85)
14. Net Change	(172,823,745.95)	135,731,272.05
15. Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	1,702,732,677.77	1,957,644,990.41
16. Net Position	\$ 1,728,319,920.77	\$ 1,986,392,590.41

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2018 and 2017

UNAUDITED

	2018 Combined	2017 Combined
Budgetary Resources:		
1051 Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 1,752,997,781.14	\$ 1,404,173,862.32
1690 Contract Authority (discretionary and mandatory)	77,700,507.20	115,117,906.86
1890 Spending Authority from offsetting collections (discretionary and mandatory)	7,535,866,721.62	7,492,394,167.49
1910 Total Budgetary Resources	<u>\$ 9,366,565,009.96</u>	<u>\$ 9,011,685,936.67</u>
Status of Budgetary Resources:		
2190 New obligations and upward adjustments (total) Unobligated balance, end of year	\$ 7,824,474,428.84	\$ 7,260,880,164.87
2204 Apportioned, unexpired accounts	1,469,799,116.71	1,750,805,771.80
2304 Exempt from apportionment, unexpired accounts	72,291,464.41	0.00
2412 Unexpired unobligated balance, end of year	1,542,090,581.12	1,750,805,771.80
2490 Unobligated balance, end of year (total)	<u>1,542,090,581.12</u>	<u>1,750,805,771.80</u>
2500 Total Budgetary Resources	<u>\$ 9,366,565,009.96</u>	<u>\$ 9,011,685,936.67</u>
Outlays, net:		
4190 Outlays, net (total) (discretionary and mandatory)	329,502,434.04	(20,460,629.15)
4210 Agency Outlays, net (discretionary and mandatory)	<u>\$ 329,502,434.04</u>	<u>\$ (20,460,629.15)</u>

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2018 and 2017

UNAUDITED

	2018 Combined	2017 Combined
(discretionary and mandatory)		

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

	MSC (Sealift Command)	Military Surface Deployment & Distribution (SDDC)	Air Mobility Command
	<hr/>	<hr/>	<hr/>
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	\$ 102,398,736.77	\$ (153,420,861.44)	\$ 510,751,062.56
3. Accounts Receivable (Note 5)	95,646,248.50	370,442,355.69	1,137,700,146.24
5. Total Intragovernmental Assets	<hr/> \$ 198,044,985.27	<hr/> \$ 217,021,494.25	<hr/> \$ 1,648,451,208.80
C. Accounts Receivable,Net (Note 5)	0.00	15,182,185.17	13,326,001.52
F. General Property, Plant and Equipment,Net (Note 10)	0.00	71,385,627.38	89,969,372.63
H. Other Assets (Note 6)	0.00	(802,103.82)	1,625,595.46
2. TOTAL ASSETS	<hr/> \$ 198,044,985.27	<hr/> \$ 302,787,202.98	<hr/> \$ 1,753,372,178.41
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)			

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

	Cmd Staff	Defense Courier Division	US Transportation Command Component
	<hr/>	<hr/>	<hr/>
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	\$ 53,737,201.28	\$ 13,139,964.96	\$ 0.00
3. Accounts Receivable (Note 5)	7,362,976.26	2,089,808.05	0.00
5. Total Intragovernmental Assets	<hr/> \$ 61,100,177.54	<hr/> \$ 15,229,773.01	<hr/> \$ 0.00
C. Accounts Receivable,Net (Note 5)	10,390,945.12	743,363.72	0.00
F. General Property, Plant and Equipment,Net (Note 10)	137,664,800.31	0.00	0.00
H. Other Assets (Note 6)	155,320.79	0.00	0.00
2. TOTAL ASSETS	<hr/> \$ 209,311,243.76	<hr/> \$ 15,973,136.73	<hr/> \$ 0.00
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)			

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

	Combined Total	Eliminations	2018 Consolidated
	<hr/>	<hr/>	<hr/>
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)	\$ 526,606,104.13	\$ 0.00	\$ 526,606,104.13
3. Accounts Receivable (Note 5)	1,613,241,534.74	6,589,839.93	1,606,651,694.81
5. Total Intragovernmental Assets	<hr/> \$ 2,139,847,638.87	<hr/> \$ 6,589,839.93	<hr/> \$ 2,133,257,798.94
C. Accounts Receivable,Net (Note 5)	39,642,495.53	0.00	39,642,495.53
F. General Property, Plant and Equipment,Net (Note 10)	299,019,800.32	0.00	299,019,800.32
H. Other Assets (Note 6)	978,812.43	0.00	978,812.43
2. TOTAL ASSETS	<hr/> \$ 2,479,488,747.15	<hr/> \$ 6,589,839.93	<hr/> \$ 2,472,898,907.22
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)			

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

2017 Consolidated

1. ASSETS (Note 2)

A. Intragovernmental:

1. Fund Balance with Treasury (Note 3)	\$	856,108,538.17
3. Accounts Receivable (Note 5)		1,206,570,731.61
5. Total Intragovernmental Assets	\$	2,062,679,269.78

C. Accounts Receivable,Net (Note 5) 190,157,728.62

F. General Property, Plant and Equipment,Net (Note 10) 527,895,012.29

H. Other Assets (Note 6) 2,056,167.93

2. TOTAL ASSETS

\$ 2,782,788,178.62

3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10)

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

	MSC (Sealift Command)	Military Surface Deployment & Distribution (SDDC)	Air Mobility Command
	<hr/>	<hr/>	<hr/>
4. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	\$ 11,994,092.11	\$ 5,646,131.06	\$ 26,776,697.70
3. Other Liabilities (Note 15 & 16)	110,664.21	1,618,302.00	41,427,366.39
4. Total Intragovernmental Liabilities	<hr/> \$ 12,104,756.32	<hr/> \$ 7,264,433.06	<hr/> \$ 68,204,064.09
B. Accounts Payable (Note 12)	\$ 175,502,467.36	\$ 118,364,272.98	\$ 244,436,897.27
C. Military Retirement and Other Federal Employment Benefits (Note 17)	586,043.95	5,378,371.04	8,977,148.67
F. Other Liabilities (Note 15 & Note 16)	2,013,649.81	10,623,287.94	48,592,426.01
5. TOTAL LIABILITIES	<hr/> \$ 190,206,917.44	<hr/> \$ 141,630,365.02	<hr/> \$ 370,210,536.04
6. COMMITMENTS AND CONTINGENCIES (NOTE 16)			
7. NET POSITION			
B. Unexpended Appropriations - Other Funds	0.00	0.00	0.00
D. Cumulative Results of Operations - Other Funds	7,838,067.83	161,156,837.96	1,383,161,642.37
8. TOTAL NET POSITION	<hr/> \$ 7,838,067.83	<hr/> \$ 161,156,837.96	<hr/> \$ 1,383,161,642.37
9. TOTAL LIABILITIES AND NET POSITION	<hr/> <hr/> \$ 198,044,985.27	<hr/> <hr/> \$ 302,787,202.98	<hr/> <hr/> \$ 1,753,372,178.41

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

	Cmd Staff	Defense Courier Division	US Transportation Command Component
	<hr/>	<hr/>	<hr/>
4. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	\$ 1,424,254.03	\$ 86,557.04	\$ 0.00
3. Other Liabilities (Note 15 & 16)	874,436.91	8,539.90	0.00
4. Total Intragovernmental Liabilities	<hr/> \$ 2,298,690.94	<hr/> \$ 95,096.94	<hr/> \$ 0.00
B. Accounts Payable (Note 12)	\$ 40,807,454.65	\$ 849,305.03	\$ 0.00
C. Military Retirement and Other Federal Employment Benefits (Note 17)	2,613,566.95	28,356.97	0.00
F. Other Liabilities (Note 15 & Note 16)	2,390,842.98	37,693.42	0.00
5. TOTAL LIABILITIES	<hr/> \$ 48,110,555.52	<hr/> \$ 1,010,452.36	<hr/> \$ 0.00
6. COMMITMENTS AND CONTINGENCIES (NOTE 16)			
7. NET POSITION			
B. Unexpended Appropriations - Other Funds	25,587,243.00	0.00	0.00
D. Cumulative Results of Operations - Other Funds	135,613,445.24	14,962,684.37	0.00
8. TOTAL NET POSITION	<hr/> \$ 161,200,688.24	<hr/> \$ 14,962,684.37	<hr/> \$ 0.00
9. TOTAL LIABILITIES AND NET POSITION	<hr/> <hr/> \$ 209,311,243.76	<hr/> <hr/> \$ 15,973,136.73	<hr/> <hr/> \$ 0.00

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

	Combined Total	Eliminations	2018 Consolidated
	<hr/>	<hr/>	<hr/>
4. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	\$ 45,927,731.94	\$ 5,749,436.86	\$ 40,178,295.08
3. Other Liabilities (Note 15 & 16)	44,039,309.41	840,403.07	43,198,906.34
4. Total Intragovernmental Liabilities	<hr/> \$ 89,967,041.35	<hr/> \$ 6,589,839.93	<hr/> \$ 83,377,201.42
B. Accounts Payable (Note 12)	\$ 579,960,397.29	\$ 0.00	\$ 579,960,397.29
C. Military Retirement and Other Federal Employment Benefits (Note 17)	17,583,487.58	0.00	17,583,487.58
F. Other Liabilities (Note 15 & Note 16)	63,657,900.16	0.00	63,657,900.16
5. TOTAL LIABILITIES	<hr/> \$ 751,168,826.38	<hr/> \$ 6,589,839.93	<hr/> \$ 744,578,986.45
6. COMMITMENTS AND CONTINGENCIES (NOTE 16)			
7. NET POSITION			
B. Unexpended Appropriations - Other Funds	25,587,243.00	0.00	25,587,243.00
D. Cumulative Results of Operations - Other Funds	1,702,732,677.77	0.00	1,702,732,677.77
8. TOTAL NET POSITION	<hr/> \$ 1,728,319,920.77	<hr/> \$ 0.00	<hr/> \$ 1,728,319,920.77
9. TOTAL LIABILITIES AND NET POSITION	<hr/> <hr/> \$ 2,479,488,747.15	<hr/> <hr/> \$ 6,589,839.93	<hr/> <hr/> \$ 2,472,898,907.22

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING BALANCE SHEET
As of September 30, 2018 and 2017

UNAUDITED

2017 Consolidated

4. LIABILITIES (Note 11)

A. Intragovernmental:

1. Accounts Payable (Note 12)	\$	86,269,812.29
3. Other Liabilities (Note 15 & 16)		14,409,913.51
4. Total Intragovernmental Liabilities	\$	100,679,725.80

B. Accounts Payable (Note 12)	\$	644,392,661.79
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C. Military Retirement and Other Federal Employment Benefits (Note 17)		17,246,101.51
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F. Other Liabilities (Note 15 & Note 16)		34,077,099.11
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5. TOTAL LIABILITIES	\$	796,395,588.21
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6. COMMITMENTS AND CONTINGENCIES (NOTE 16)

7. NET POSITION

B. Unexpended Appropriations - Other Funds		28,747,600.00
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D. Cumulative Results of Operations - Other Funds		1,957,644,990.41
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8. TOTAL NET POSITION	\$	1,986,392,590.41
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9. TOTAL LIABILITIES AND NET POSITION	\$	2,782,788,178.62
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Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2018 and 2017

UNAUDITED

	MSC (Sealift Command)	Military Surface Deployment & Distribution (SDDC)	Air Mobility Command
	<hr/>	<hr/>	<hr/>
1. Program Costs			
A. Gross Costs	\$ 847,538,328.70	\$ 1,345,321,169.54	\$ 4,853,447,672.36
Operations, Readiness & Support	<hr/> 847,538,328.70	<hr/> 1,345,321,169.54	<hr/> 4,853,447,672.36
 B. (Less: Earned Revenue)	 (753,954,202.05)	 (1,252,100,549.92)	 (5,043,080,330.58)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<hr/> 93,584,126.65	<hr/> 93,220,619.62	<hr/> (189,632,658.22)
E. Net Program Costs Including Assumption Changes	93,584,126.65	93,220,619.62	(189,632,658.22)
2. Net Cost of Operations	<hr/> <hr/> \$ 93,584,126.65	<hr/> <hr/> \$ 93,220,619.62	<hr/> <hr/> \$ (189,632,658.22)

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2018 and 2017

UNAUDITED

	Cmd Staff	Defense Courier Division	US Transportation Command Component
	<hr/>	<hr/>	<hr/>
1. Program Costs			
A. Gross Costs	\$ 335,006,664.68	\$ 7,229,335.48	\$ 0.00
Operations, Readiness & Support	335,006,664.68	7,229,335.48	0.00
	<hr/>	<hr/>	<hr/>
B. (Less: Earned Revenue)	(351,582,113.05)	(7,024,572.82)	0.00
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(16,575,448.37)	204,762.66	0.00
E. Net Program Costs Including Assumption Changes	(16,575,448.37)	204,762.66	0.00
2. Net Cost of Operations	<hr/> <hr/> \$ (16,575,448.37)	<hr/> <hr/> \$ 204,762.66	<hr/> <hr/> \$ 0.00

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2018 and 2017

UNAUDITED

	Combined Total	Eliminations	2018 Consolidated
1. Program Costs			
A. Gross Costs	\$ 7,388,543,170.76	\$ 292,367,146.74	\$ 7,096,176,024.02
Operations, Readiness & Support	7,388,543,170.76	292,367,146.74	7,096,176,024.02
 B. (Less: Earned Revenue)	(7,407,741,768.42)	(292,367,146.74)	(7,115,374,621.68)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(19,198,597.66)	0.00	(19,198,597.66)
E. Net Program Costs Including Assumption Changes	(19,198,597.66)	0.00	(19,198,597.66)
2. Net Cost of Operations	<u>\$ (19,198,597.66)</u>	<u>\$ 0.00</u>	<u>\$ (19,198,597.66)</u>

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2018 and 2017

UNAUDITED

2017 Consolidated

1. Program Costs

A. Gross Costs	\$ 6,673,281,663.65
Operations, Readiness & Support	6,673,281,663.65

B. (Less: Earned Revenue)	(6,757,153,493.50)
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C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(83,871,829.85)
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E. Net Program Costs Including Assumption Changes	(83,871,829.85)
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2. Net Cost of Operations	\$ (83,871,829.85)
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Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

	MSC (Sealift Command)	Military Surface Deployment & Distribution (SDDC)	Air Mobility Command
	<hr/>	<hr/>	<hr/>
UNEXPENDED APPROPRIATIONS:			
1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	\$ 0.00	\$ 0.00	\$ 0.00
3. Beginning balances, as adjusted	<hr/> 0.00	<hr/> 0.00	<hr/> 0.00
4. Budgetary Financing Sources:			
4.D. Appropriations used	0.00	0.00	0.00
5. Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	<hr/> 0.00	<hr/> 0.00	<hr/> 0.00
6. Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	<hr/> 0.00	<hr/> 0.00	<hr/> 0.00
7. Beginning Balances	101,422,194.48	257,205,005.20	1,430,077,149.15
8. Prior Period Adjustments:			
8.A. Changes in accounting principles (+/-)	0.00	(7,544,988.63)	(32,335,860.70)
9. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	101,422,194.48	249,660,016.57	1,397,741,288.45

Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

	Cmd Staff	Defense Courier Division	US Transportation Command Component
	<hr/>	<hr/>	<hr/>
UNEXPENDED APPROPRIATIONS:			
1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	\$ 28,747,600.00	\$ 0.00	\$ 0.00
3. Beginning balances, as adjusted	<hr/> 28,747,600.00	<hr/> 0.00	<hr/> 0.00
4. Budgetary Financing Sources:			
4.D. Appropriations used	(3,160,357.00)	0.00	0.00
5. Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	<hr/> (3,160,357.00)	<hr/> 0.00	<hr/> 0.00
6. Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	<hr/> 25,587,243.00	<hr/> 0.00	<hr/> 0.00
7. Beginning Balances	153,792,805.63	15,147,835.95	0.00
8. Prior Period Adjustments:			
8.A. Changes in accounting principles (+/-)	(42,207,717.36)	0.00	0.00
9. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	111,585,088.27	15,147,835.95	0.00

Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

	Combined Total	Eliminations	2018 Consolidated
	<hr/>	<hr/>	<hr/>
UNEXPENDED APPROPRIATIONS:			
1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	\$ 28,747,600.00	\$ 0.00	\$ 28,747,600.00
3. Beginning balances, as adjusted	<hr/> 28,747,600.00	<hr/> 0.00	<hr/> 28,747,600.00
4. Budgetary Financing Sources:			
4.D. Appropriations used	<hr/> (3,160,357.00)	<hr/> 0.00	<hr/> (3,160,357.00)
5. Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	<hr/> (3,160,357.00)	<hr/> 0.00	<hr/> (3,160,357.00)
6. Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	<hr/> 25,587,243.00	<hr/> 0.00	<hr/> 25,587,243.00
7. Beginning Balances	1,957,644,990.41	0.00	1,957,644,990.41
8. Prior Period Adjustments:			
8.A. Changes in accounting principles (+/-)	(82,088,566.69)	0.00	(82,088,566.69)
9. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	1,875,556,423.72	0.00	1,875,556,423.72

Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

2017 Consolidated

UNEXPENDED APPROPRIATIONS:

1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 23)	\$ 31,561,454.00
3. Beginning balances, as adjusted	31,561,454.00
4. Budgetary Financing Sources:	
4.D. Appropriations used	(2,813,854.00)
5. Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	(2,813,854.00)
6. Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23)	28,747,600.00
7. Beginning Balances	1,821,913,718.36
8. Prior Period Adjustments:	
8.A. Changes in accounting principles (+/-)	0.00
9. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23)	1,821,913,718.36

Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

	MSC (Sealift Command)	Military Surface Deployment & Distribution (SDDC)	Air Mobility Command
	<hr/>	<hr/>	<hr/>
CUMULATIVE RESULTS OF OPERATIONS:			
10. Budgetary Financing Sources:			
10.B. Appropriations used	0.00	0.00	0.00
10.C. Nonexchange revenue	0.00	0.00	73,826.20
11. Other Financing Sources (Nonexchange):			
11.B. Transfers-in/out without reimbursement (+/-)	1,487.70	3,455.34	70,142.79
11.C. Imputed financing from costs absorbed by others	0.00	5,574,445.38	7,037,027.91
11.D. Other (+/-)	(1,487.70)	(860,459.71)	(211,393,301.20)
12. Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	<hr/> 0.00	<hr/> 4,717,441.01	<hr/> (204,212,304.30)
13. Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	93,584,126.65	93,220,619.62	(189,632,658.22)
14. Net Change	<hr/> (93,584,126.65)	<hr/> (88,503,178.61)	<hr/> (14,579,646.08)
15. Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	7,838,067.83	161,156,837.96	1,383,161,642.37
16. Net Position	<hr/> <hr/> \$ 7,838,067.83	<hr/> <hr/> \$ 161,156,837.96	<hr/> <hr/> \$ 1,383,161,642.37

Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

	Cmd Staff	Defense Courier Division	US Transportation Command Component
	<hr/>	<hr/>	<hr/>
CUMULATIVE RESULTS OF OPERATIONS:			
10. Budgetary Financing Sources:			
10.B. Appropriations used	3,160,357.00	0.00	0.00
10.C. Nonexchange revenue	(4.04)	0.00	0.00
11. Other Financing Sources (Nonexchange):			
11.B. Transfers-in/out without reimbursement (+/-)	0.00	0.00	0.00
11.C. Imputed financing from costs absorbed by others	2,975,065.60	19,611.08	0.00
11.D. Other (+/-)	1,317,490.04	0.00	0.00
12. Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	<hr/> 7,452,908.60	<hr/> 19,611.08	<hr/> 0.00
13. Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	(16,575,448.37)	204,762.66	0.00
14. Net Change	<hr/> 24,028,356.97	<hr/> (185,151.58)	<hr/> 0.00
15. Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	135,613,445.24	14,962,684.37	0.00
16. Net Position	<hr/> <hr/> \$ 161,200,688.24	<hr/> <hr/> \$ 14,962,684.37	<hr/> <hr/> \$ 0.00

Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

	Combined Total	Eliminations	2018 Consolidated
	<hr/>	<hr/>	<hr/>
CUMULATIVE RESULTS OF OPERATIONS:			
10. Budgetary Financing Sources:			
10.B. Appropriations used	3,160,357.00	0.00	3,160,357.00
10.C. Nonexchange revenue	73,822.16	0.00	73,822.16
11. Other Financing Sources (Nonexchange):			
11.B. Transfers-in/out without reimbursement (+/-)	75,085.83	0.00	75,085.83
11.C. Imputed financing from costs absorbed by others	15,606,149.97	0.00	15,606,149.97
11.D. Other (+/-)	(210,937,758.57)	0.00	(210,937,758.57)
12. Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23)	<hr/> (192,022,343.61)	<hr/> 0.00	<hr/> (192,022,343.61)
13. Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23)	(19,198,597.66)	0.00	(19,198,597.66)
14. Net Change	<hr/> (172,823,745.95)	<hr/> 0.00	<hr/> (172,823,745.95)
15. Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23)	1,702,732,677.77	0.00	1,702,732,677.77
16. Net Position	<hr/> \$ 1,728,319,920.77	<hr/> \$ 0.00	<hr/> \$ 1,728,319,920.77

Other Defense Activities - Tier 2 - US Transportation Command
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2018 and 2017

2017 Consolidated

CUMULATIVE RESULTS OF OPERATIONS:**10. Budgetary Financing Sources:**

10.B. Appropriations used	2,813,854.00
10.C. Nonexchange revenue	2,683.40

11. Other Financing Sources (Nonexchange):

11.B. Transfers-in/out without reimbursement (+/-)	40,112,587.35
11.C. Imputed financing from costs absorbed by others	9,966,978.55
11.D. Other (+/-)	(1,036,661.10)

12. Total Financing Sources (Includes Funds from Dedicated	51,859,442.20
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Collections - See Note 23)

13. Net Cost of Operations (+/-) (Includes Funds from	(83,871,829.85)
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Dedicated Collections - See Note 23)

14. Net Change	135,731,272.05
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15. Cumulative Results of Operations (Includes Funds from	1,957,644,990.41
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Dedicated Collections - See Note 23)

16. Net Position	\$ 1,986,392,590.41
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UNAUDITED

	MSC (Sealift Command)	Military Surface Deployment & Distribution (SDDC)	Air Mobility Command
Budgetary Resources:			
1051 Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ (96,805,705.21)	\$ 853,020,677.83	\$ 937,947,079.63
1690 Contract Authority (discretionary and mandatory)	0.00	12,650,727.38	27,696,903.34
1890 Spending Authority from offsetting collections (discretionary and mandatory)	847,967,286.86	1,623,494,222.94	4,765,777,954.19
1910 Total Budgetary Resources	<u>\$ 751,161,581.65</u>	<u>\$ 2,489,165,628.15</u>	<u>\$ 5,731,421,937.16</u>
Status of Budgetary Resources:			
2190 New obligations and upward adjustments (total)	\$ 833,588,428.09	\$ 1,496,673,509.58	\$ 5,070,979,965.37
Unobligated balance, end of year			
2204 Apportioned, unexpired accounts	(82,426,846.44)	992,492,118.57	588,150,507.38
2304 Exempt from apportionment, unexpired accounts	0.00	0.00	72,291,464.41
2412 Unexpired unobligated balance, end of year	(82,426,846.44)	992,492,118.57	660,441,971.79
2490 Unobligated balance, end of year (total)	<u>(82,426,846.44)</u>	<u>992,492,118.57</u>	<u>660,441,971.79</u>
2500 Total Budgetary Resources	<u>\$ 751,161,581.65</u>	<u>\$ 2,489,165,628.15</u>	<u>\$ 5,731,421,937.16</u>
Outlays, net:			
4190 Outlays, net (total) (discretionary and mandatory)	153,040,909.27	160,347,982.69	27,610,760.97
4210 Agency Outlays, net (discretionary and mandatory)	\$ 153,040,909.27	\$ 160,347,982.69	\$ 27,610,760.97

UNAUDITED

	Cmd Staff	Defense Courier Division	US Transportation Command Component
Budgetary Resources:			
1051 Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 43,799,904.19	\$ 15,035,824.70	\$ 0.00
1690 Contract Authority (discretionary and mandatory)	37,382,713.74	(29,837.26)	0.00
1890 Spending Authority from offsetting collections (discretionary and mandatory)	291,999,018.05	6,628,239.58	0.00
1910 Total Budgetary Resources	<u>\$ 373,181,635.98</u>	<u>\$ 21,634,227.02</u>	<u>\$ 0.00</u>
Status of Budgetary Resources:			
2190 New obligations and upward adjustments (total) Unobligated balance, end of year	\$ 415,112,586.31	\$ 8,119,939.49	\$ 0.00
2204 Apportioned, unexpired accounts	(41,930,950.33)	13,514,287.53	0.00
2304 Exempt from apportionment, unexpired accounts	0.00	0.00	0.00
2412 Unexpired unobligated balance, end of year	(41,930,950.33)	13,514,287.53	0.00
2490 Unobligated balance, end of year (total)	<u>(41,930,950.33)</u>	<u>13,514,287.53</u>	<u>0.00</u>
2500 Total Budgetary Resources	<u>\$ 373,181,635.98</u>	<u>\$ 21,634,227.02</u>	<u>\$ 0.00</u>
Outlays, net:			
4190 Outlays, net (total) (discretionary and mandatory)	(10,221,696.37)	(1,275,522.52)	0.00
4210 Agency Outlays, net (discretionary and mandatory)	<u>\$ (10,221,696.37)</u>	<u>\$ (1,275,522.52)</u>	<u>\$ 0.00</u>

Department of Defense

UNAUDITED

Other Defense Activities - Tier 2 - US Transportation Command

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2018 and 2017

	2018 Combined	2017 Combined
Budgetary Resources:		
1051 Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 1,752,997,781.14	\$ 1,404,173,862.32
1690 Contract Authority (discretionary and mandatory)	77,700,507.20	115,117,906.86
1890 Spending Authority from offsetting collections (discretionary and mandatory)	7,535,866,721.62	7,492,394,167.49
1910 Total Budgetary Resources	<u>\$ 9,366,565,009.96</u>	<u>\$ 9,011,685,936.67</u>
Status of Budgetary Resources:		
2190 New obligations and upward adjustments (total) Unobligated balance, end of year	\$ 7,824,474,428.84	\$ 7,260,880,164.87
2204 Apportioned, unexpired accounts	1,469,799,116.71	1,750,805,771.80
2304 Exempt from apportionment, unexpired accounts	72,291,464.41	0.00
2412 Unexpired unobligated balance, end of year	1,542,090,581.12	1,750,805,771.80
2490 Unobligated balance, end of year (total)	<u>1,542,090,581.12</u>	<u>1,750,805,771.80</u>
2500 Total Budgetary Resources	<u>\$ 9,366,565,009.96</u>	<u>\$ 9,011,685,936.67</u>
Outlays, net:		
4190 Outlays, net (total) (discretionary and mandatory)	329,502,434.04	(20,460,629.15)
4210 Agency Outlays, net (discretionary and mandatory)	<u>\$ 329,502,434.04</u>	<u>\$ (20,460,629.15)</u>

Department of Defense
Other Defense Activities - Tier 2 - US Transportation Command
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2018 and 2017

UNAUDITED

	MSC (Sealift Command)	Military Surface Deployment & Distribution (SDDC)	Air Mobility Command
(discretionary and mandatory)			

Department of Defense
 Other Defense Activities - Tier 2 - US Transportation Command
 COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the periods ended September 30, 2018 and 2017

UNAUDITED

	Cmd Staff	Defense Courier Division	US Transportation Command Component
(discretionary and mandatory)			

Note 1.	Significant Accounting Policies
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1.A. Mission of the Reporting Entity

United States Transportation Command (USTRANSCOM) was established in 1987 and is headquartered at Scott Air Force Base, Illinois. USTRANSCOM is a unified, functional combatant command, providing support to the other eight United States (U.S.) combatant commands, the military services, defense agencies and other governmental agencies. USTRANSCOM provides full-spectrum global mobility solutions and related enabling capabilities for supported customers' requirements in peace and war and strives to be the transportation and enabling capability provider of choice. USTRANSCOM's consolidated financial statements and accompanying notes relate only to business associated with the USTRANSCOM's working capital fund (WCF). USTRANSCOM WCF is comprised of the three Component Commands, a courier division, and USTRANSCOM Headquarters:

- Air Mobility Command (AMC) – AMC's mission is to provide rapid, global mobility and sustainment for America's armed forces. The command also plays a crucial role in providing humanitarian support at home and around the world. AMC provides airlift and aerial refueling for all of America's armed forces.
- Military Sealift Command (MSC) – MSC operates approximately 110 non-combatant, civilian-crewed ships that replenish U.S. Navy ships, conduct specialized missions, strategically prepositions combat cargo at sea around the world and moves military cargo and supplies used by deployed U.S. forces and coalition partners.
- Military Surface Deployment and Distribution Command (SDDC) –SDDC is a unique Army component that delivers, origin-to-destination distribution solutions. Whenever and wherever Soldiers, Sailors, Airmen, Marines and Coast Guardsmen are deployed, SDDC is involved in planning and executing the surface delivery of their equipment and supplies.
- Defense Courier Division (DCD) – DCD provides secure, timely, efficient end-to-end global distribution of classified and sensitive material for the United States and its allies.
- Command Staff (CMD) – CMD acts as back office support to the overall USTRANSCOM operations and includes both budgeting and accounting functions.

In addition to the above Component Commands, USTRANSCOM is also made up of the following Subordinate Commands, which are separately funded with DoD O&M and have no impact on the working capital fund operations:

- Joint Enabling Capabilities Command (JECC) – JECC provides mission-tailored, joint capability packages to Combatant Commanders in order to facilitate the rapid establishment of Joint Force Headquarters, fulfill Global Response Force execution and bridge joint operational requirements.
- Joint Transportation Reserve Unit (JTRU) –JTRU's mission is to augment the United States Transportation Command in providing air, land, and sea transportation for the Department of Defense, both in times of peace and war.

1.B. Basis of Presentation

These financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position and combined budgetary resources of the USTRANSCOM, as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act of 1994 (GMRA), and other appropriate legislation. The financial statements have been prepared from the accounting records of USTRANSCOM in

accordance with 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 Department of Defense (DoD) Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which USTRANSCOM is responsible unless otherwise noted.

USTRANSCOM is unable to fully implement all elements of U.S. GAAP and the OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. USTRANSCOM derives reported values and information for major asset and liability categories largely from nonfinancial 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 U.S. GAAP. USTRANSCOM continues to implement process and system improvements addressing these limitations.

1.C. Appropriations and Funds

USTRANSCOM receives working capital funds (revolving) for use in executing its mission and subsequently report on resource usage.

Working capital funds (WCF) 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 that flow 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.

1.D. Basis of Accounting

USTRANSCOM 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 Components less the Eliminations. The Statement of Budgetary resources is presented on a combined basis which is the summation of the Components. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use of Federal funds. USTRANSCOM's continued effort towards full compliancy with U.S. GAAP for the accrual method of accounting is encumbered by various systems limitations and the sensitive nature of USTRANSCOM activities.

USTRANSCOM's consolidated financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of USTRANSCOM's components. The underlying data is largely derived from budgetary transactions (i.e., obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue, claims and expenses during the reporting period. Accordingly, actual results may differ from those estimates. Significant estimates include: the year-end accruals of accounts

payable; allowance for doubtful accounts; accrued workers' compensation; minor construction in progress; deferred revenue; actuarial liabilities related to workers' compensation; and actuarial liabilities related to military and other pension, retirement and post-retirement benefits.

1.E. Revenues and Other Financing Sources

USTRANSCOM does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financing Accounting," USTRANSCOM recognizes non-exchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, and unbilled revenue. Some accounts such as civilian pay, military pay, and accounts payable are presented on the accrual basis of accounting on the financial statements, as required by U.S. GAAP. In the case of Operating Material & Supplies (OM&S), operating expenses are generally recognized when the items are purchased. The department has issued guidance under which Federal entities may expense OM&S using the purchase method of accounting rather than the consumption method. Under the consumption method, OM&S would be expensed when consumed.

1.G. Accounting for Intragovernmental Activities

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," Imputed financing represents the costs paid on behalf of USTRANSCOM by another Federal entity for business-type activity. USTRANSCOM recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act; and (3) losses in litigation proceedings. Consistent with the implementation of SSFAS No.55, "Amending Inter-Entity Cost Provisions, certain unreimbursed inter-entity costs of goods and services other than those identified in the preceding are not included in the financial statements.

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

Generally, financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt,

interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, USTRANSCOM sells defense services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense 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.

1.I. Funds with the U.S. Treasury

USTRANSCOM's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS) process USTRANSCOM's cash collections, disbursements, and adjustments. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS submits reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account.

The U.S. Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include USTRANSCOM, are included at the TI 97 DWCF appropriation sub-numbered level, an aggregate level that does not provide identification of the separate Defense Agencies by U.S. Treasury.

1.J. Cash and Other Monetary Assets

Not Applicable

1.K. Accounts Receivable

Accounts receivable represent amounts due to USTRANSCOM from other Federal entities and the public. In general, intragovernmental accounts receivable arise from the provision of goods and services to other Federal agencies and are expected to be fully collected.

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 DoD does not recognize an allowance for estimated uncollectible amounts from other Federal agencies as receivables from other Federal agencies are considered to be inherently collectible. Claims for accounts receivable from other Federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.L. Direct Loans and Loan Guarantees

Not Applicable

1.M. Inventories and Related Property

Not Applicable

1.N. Investments in U.S. Treasury Securities

Not Applicable

1.O. General Property, Plant and Equipment

USTRANSCOM General Property, Plant, and Equipment (PP&E) capitalization threshold is \$250 thousand and two or more years of useful life. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100

thousand for equipment and \$20 thousand for real property) and are carried at the remaining net book value.

The WCFs capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

Costs for construction projects are recorded as construction-in-progress (CIP) until the asset is placed in service. Costs are valued at actual (direct) costs plus applied overhead and other indirect costs. At year-end, a portion of the CIP balance may be estimated to accrue amounts for work completed but not yet recorded.

Internal use software includes purchased commercial-off-the-shelf (COTS) software, contractor-developed software and internally developed software. For COTS software, the capitalized costs are equal to the amount paid to the vendor for the software. For contractor-developed software, the capitalized costs include the amount paid to a contractor to design, program, install and implement the software. For internally-developed software, capitalized costs include the direct costs incurred during the software development phase. USTRANSCOM is working on methodology to capture indirect costs. Costs incurred during the preliminary design and post-implementation/operational phases are expensed in the period incurred.

USTRANSCOM recognizes depreciation expense once the asset has been placed in service. Depreciation is calculated using the straight-line depreciation method for all asset classes over their estimated useful lives. Amortization of capitalized software is calculated using the straight-line depreciation method and begins on the date of acquisition if purchased, or when the module or component has been placed in use, if contractor or internally developed.

1.P. Advances and Prepayments

Payments made in advance of the receipt of goods and services should be 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. USTRANSCOM has not fully implemented this policy primarily due to system limitations.

1.Q. Leases

Not Applicable

1.R. Other Assets

Other assets include assets such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the USTRANSCOM's Consolidated Balance Sheet.

USTRANSCOM conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. USTRANSCOM 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 Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments 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.

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 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.

1.S. Contingencies and Other Liabilities

The 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. USTRANSCOM recognizes 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. USTRANSCOM's risk of loss and resultant contingent liabilities arise from 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.

1.T. Accrued Leave

USTRANSCOM reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

1.V. Treaties for Use of Foreign Bases

Not Applicable

1.W. 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 Treasury. Supported disbursements and collections have corroborating documentation for summary level adjustments made to accounts payable and accounts 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 USTRANSCOM accounts payable and receivable trial balances prior to validating underlying transactions.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD generally cannot determine whether undistributed disbursements and collections should be applied to Federal or nonfederal accounts payable and accounts receivable at the time accounting reports are prepared. Accordingly, the DoD policy is 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.

1.X. Fiduciary Activities

Not Applicable

1.Y. Military Retirement and Other Federal Employment Benefits

Not Applicable

1.Z. Significant Events

USTRANSCOM continues to monitor minor world events. To date, USTRANSCOM has not experienced any significant impacts to their financials; however, should escalation occur requiring USTRANSCOM's support, future period financial statements could be materially impacted.

USTRANSCOM partnered with the DFAS to implement a direct communication feed from the Defense Enterprise Accounting and Management System (DEAMS), USTRANSCOM's Enterprise Resource Planning (ERP) system, to the Defense Departmental Reporting System (DDRS), the DoD financial reporting package. This began phase one of the sun-setting of the General Accounting and Financial System-Reengineered (GAFS-R), the current communication tool between DEAMS and DDRS. The purpose of the implementation is to eliminate an unnecessary data translation and to support USTRANSCOM's continued efforts toward Standard Financial Information Structure (SFIS) compliance. The "go-live" date for this implementation was February with reporting in early March 2018. As of 30 September 2018, USTRANSCOM continues to identify and resolve any known issue to include unsupported journal vouchers (JVs) and anticipates this to be on on-going process.

Note 2.	Nonentity Assets
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As of September 30	2018	2017
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	\$ 0	\$ (15,351)
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	\$ 0	\$ (15,351)
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	\$ 0	\$ 0
B. Accounts Receivable	277	24,637
C. Other Assets	0	0
D. Total Nonfederal Assets	\$ 277	\$ 24,637
3. Total Nonentity Assets	\$ 277	\$ 9,286
4. Total Entity Assets	\$ 2,472,622	\$ 2,773,502
5. Total Assets	\$ 2,472,899	\$ 2,782,788

Asset accounts are categorized as either entity or nonentity. Entity accounts consist of resources that are available for use in the operations of the entity.

Nonentity assets are not available for the use in USTRANSCOM's normal operations. USTRANSCOM has stewardship accountability and reporting responsibility for nonentity assets.

Intragovernmental (FBWT) represents advanced in anticipation of earned revenue from Federal sources.

Nonfederal Accounts Receivable include interest receivable that upon collection is remitted to the United States Treasury as miscellaneous receipts.

Note 3.	Fund Balance with Treasury
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As of September 30	2018		2017	
(Amounts in thousands)				
Status of Fund Balance with Treasury				
1. Unobligated Balance				
A. Available	\$	1,542,091	\$	1,750,806
B. Unavailable		0		0
2. Obligated Balance not yet Disbursed	\$	2,217,917	\$	2,050,838
3. Non-budgetary FBWT	\$	0	\$	0
4. Non-FBWT Budgetary Accounts	\$	(3,233,402)	\$	(2,945,535)
5. Total	\$	526,606	\$	856,109

The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, to include USTRANSCOM, are included at the Treasury Index 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, the U.S. Treasury does not separately report an amount for USTRANSCOM and, therefore, the entire USTRANSCOM's (FBWT) amount is reflected as a reconciling amount.

The Intragovernmental Payment and Collection System (IPAC) balance remains unmatched as of September 30, 2018. This represents amounts not reflected in USTRANSCOM's financial statements, resulting in an understated "Total Fund Balances." IPAC allows Federal agencies to internally transfer funds from one agency to another through suspense accounts, established by the U.S. Treasury, to temporarily hold unidentifiable transactions belonging to the respective agency.

In addition, there remains an "unattributable" USTRANSCOM amount that could have material impact to USTRANSCOM's financial statements. DFAS is performing a reconciliation to quantify the amount attributable to USTRANSCOM. Because this amount has not yet been attributed to any agency, USTRANSCOM considers the net impact of this balance, or some portion thereof, may be an additional amount that

could be included in our “Total Fund Balances.” USTRANSCOM does not have visibility into the specific activity of this account and is thus reliant upon the services provided by DFAS to reconcile and clear these amounts. Management continues to monitor this balance and work with DFAS and other agencies to fully address and resolve.

AFS Undistributed

Undistributed disbursement and collection adjustments totaling \$75 million were recorded in order to reconcile the general ledger amount to the Treasury amount reported for USTRANSCOM. The following table represents the undistributed amount calculated and posted within DDRS-AFS.

101000.0140 Fund Balance with Treasury – Funds Collected –	\$
101000.0150 Fund Balance with Treasury – Funds Disbursed –	
Total Supported Undistributed Adjustment	

Note 4. Investments and Related Interest

As of September 30	2018				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
1. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	0		0	0	0
5. Total Nonmarketable, Market-Based	0		0	0	0
B. Accrued Interest	0			0	0
C. Total Intragovernmental Securities	\$ 0		\$ 0	\$ 0	0
2. Other Investments					
A. Total Other Investments	\$ 0		\$ 0	0	N/A

As of September 30	2017				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in thousands)					
3. Intragovernmental Securities					
A. Nonmarketable, Market-Based					
1. Military Retirement Fund	\$ 0		\$ 0	\$ 0	0
2. Medicare Eligible Retiree Health Care Fund	0		0	0	0
3. US Army Corps of Engineers	0		0	0	0
4. Other Funds	0		0	0	0
5. Total Nonmarketable, Market-Based	0		0	0	0
B. Accrued Interest	0			0	0
C. Total Intragovernmental Securities	\$ 0		\$ 0	\$ 0	0
4. Other Investments					
A. Total Other Investments	\$ 0		\$ 0	0	N/A

USTRANSCOM has no investments and Related Interest.

Note 5.	Accounts Receivable
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As of September 30	2018			
	Gross Amount Due		Allowance For Estimated Uncollectibles	Accounts Receivable, Net
ts in thousands)				
1. Intragovernmental Receivables	\$	1,606,652	N/A	\$ 1,606,652
2. Nonfederal Receivables (From the Public)	\$	44,216	\$ (4,573)	\$ 39,643
3. Total Accounts Receivable	\$	1,650,868	\$ (4,573)	\$ 1,646,295

As of September 30	2017			
	Gross Amount Due		Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)				
1. Intragovernmental Receivables	\$	1,206,571	N/A	\$ 1,206,571
2. Nonfederal Receivables (From the Public)	\$	194,571	\$ (4,413)	\$ 190,158
3. Total Accounts Receivable	\$	1,401,142	\$ (4,413)	\$ 1,396,729

Note 6.	Other Assets
----------------	---------------------

As of September 30 (Amounts in thousands)	2018	2017
1. Intragovernmental Other Assets		
A. Advances and Prepayments	\$ 0	\$ 0
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 0	\$ 0
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	\$ 945	\$ 1,166
B. Advances and Prepayments	34	890
C. Other Assets (With the Public)	0	0
D. Total Nonfederal Other Assets	\$ 979	\$ 2,056
3. Total Other Assets	\$ 979	\$ 2,056

Contract terms and conditions for certain types of contract financing payments convey certain rights to USTRANSCOM protecting the contract work from state or local taxation, liens or attachment by the contractors' 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 USTRANSCOM. USTRANSCOM does not have the right to take the work, except as provided in contract clauses related to termination or acceptance. USTRANSCOM is not obligated to make payment to the contractor until delivery and acceptance.

Outstanding Contract Financing Payments includes \$944,641.44 in estimated future payments to contractors upon delivery and government acceptance. The Contract Financing Payment asset is related to the Contingent Liabilities reported in Note 15, Other Liabilities.

Note 7.	Cash and Other Monetary Assets
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As of September 30	2018	2017
(Amounts in thousands)		
1. Cash	\$ 0.00	\$ 0.00
2. Foreign Currency	0.00	0.00
3. Other Monetary Assets	0.00	0.00
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 0.00	\$ 0.00

USTRANSCOM has no Cash or Other Monetary Assets.

Note 8. Direct Loan and Loan Guarantees

Direct Loan and/or Loan Guarantee Programs

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Note 9. Inventory and Related Property

USTRANSCOM has no Inventory.

USTRANSCOM has no Operating Material and Supplies.

USTRANSCOM has no Stockpile Material.

Note 10. General PP&E, Net

As of September 30	2018				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A.Land	N/A	N/A	\$ 0	N/A	\$ 0
B.Buildings, Structures, and Facilities	S/L	20, 40 Or 45	270,250	\$ (117,174)	153,076
C.Leasehold Improvements	S/L	lease term	0	0	0
D.Software	S/L	2-5 Or 10	78,075	0	78,075
E.General Equipment	S/L	Various	349,480	(290,565)	58,915
F.Assets Under Capital Lease	S/L	lease term	0	0	0
G. Construction-in- Progress	N/A	N/A	8,954	N/A	8,954
H.Other			450	(450)	0
I. Total General PP&E			\$ 707,209	\$ (408,189)	\$ 299,020

As of September 30	2017				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A.Land	N/A	N/A	\$ 0	N/A	\$ 0
B.Buildings, Structures, and Facilities	S/L	20 , 40 Or 45	691,455	\$ (318,550)	372,905
C.Leasehold Improvements	S/L	lease term	0	0	0
D.Software	S/L	2-5 Or 10	81,486	(0)	81,486
E.General Equipment	S/L	Various	387,431	(317,988)	69,443
F.Assets Under Capital Lease	S/L	lease term	0	0	0
G. Construction-in- Progress	N/A	N/A	3,413	N/A	3,413
H.Other			647	0	647
I. Total General PP&E			\$ 1,164,432	\$ (636,538)	\$ 527,894

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

CODOWCF - US Transportation Command

Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	0	0	0	0
Archeological Sites	Each	0	0	0	0
Museum Collection Items (Objects, Not Including Fine Art)	Each	0	0	0	0
Museum Collection Items (Objects, Fine Art)	Each	0	0	0	0

(Acres in Thousands)					
Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	0	0	0	0
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	0	0	0	0
9130	Licensed and Permitted Land	0	0	0	0
9140	Public Land	0	0	0	0
9210	Land Easement	0	0	0	0
9220	In-leased Land	0	0	0	0
9230	Foreign Land	0	0	0	0
Grand Total					0
TOTAL - All Other Lands					0
TOTAL – Stewardship Lands					0

Assets Under Capital Lease

As of September 30

(Amounts in thousands)

1. Entity as Lessee, Assets Under Capital Lease

	2018	2017
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	0	0
C. Accumulated Amortization	0	0
D. Total Capital Leases	<u>\$ 0</u>	<u>\$ 0</u>

General Property, Plant and Equipment

(PP&E)

USTRANSCOM does not have any restrictions on the use or convertibility of General PP&E.

Other USTRANSCOM Disclosures

Significant accounting adjustments have been made to USTRANSCOM's mission critical assets as a result of the Department's ongoing audit remediation efforts. These accounting adjustments were recognized in current year gain/loss accounts when auditable data was not available to support restatement of prior period financial statements.

AMC has noted an amount of \$211M for USSGL 1730 – Buildings, Improvements, and Renovations that cannot be supported. This amount is related to activity occurring before FY10 and research has been exhausted. For FY18 reporting, this balance was written off with offsetting USSGL 7290 – Other Losses.

Real Property

USTRANSCOM notes that five buildings located at Scott Air Force Base were assigned to USTRANSCOM, specifically (CMD), by the Scott Air Force Base property management office. USTRANSCOM currently has financial reporting and sustainment responsibilities for the five properties identified as follows:

Scott Air Force Base
Building 512

Building 1900

Building 1961

Building 1986

Building 4038

Asset values and related accumulated depreciation for these buildings have been recorded on CMD's books since they were either transferred in or placed in service. Based on regulatory authority, USTRANSCOM has determined these assets should be accounted for on the United State Air Force's financial statements and not CMD's financial statements. USTRANSCOM is in the process of reviewing asset values and related accumulated depreciation for these buildings and has not finalized the review as of September 30, 2018. USTRANSCOM anticipates finalizing requisite accounting treatment for the transfer of assets in FY20.

Internal Use Software (IUS)

In FY 2016, USTRANSCOM and its Component entities, (CMD), (AMC), (SDDC), (MSC), and (DCD) executed a comprehensive write-off of IUS balances in accordance with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 50. At the time of the write off, CMD, AMC, SDDC and MSC had material balances of IUS effected by this change in accounting principle. DCD was the only component with immaterial balances of IUS and therefore was unaffected by this management decision.

USTRANSCOM executed the write-off of IUS balances under the regulatory guidance prescribed by the Office of the Undersecretary of Defense Comptroller (OUSD(C)) Memorandum titled "Strategy for Internal Use Software Audit Readiness". This memorandum was issued on 30 September 2015 and required the write-off of all unsupported IUS balances prior to 01 October 2016. As a result of unreliable processes to capture and support historic IUS balances, USTRANSCOM and its components wrote-off all recorded IUS balances prior to 01 October 2016. This decision was captured in a USTRANSCOM Program Analysis and Financial Management Directorate (TCJ8) Memorandum dated 15 July 2016.

All IUS balances written off were recorded using USSGL 7401 – Prior Period Adjustment Due to Changes in Accounting Principles. The following asset accounts were liquidated to complete the recognition of this transaction:

USSGL 1830 – Internal Use Software (IUS)

USSGL 1832 – Internal Use Software in Development (IUSID)

USSGL 1839 – Accumulated Amortization on Internal Use Software

The Table below identifies the total amount written off by each respective USTRANSCOM Component in FY16:

USTRANSCOM Component	Initial IUS Write Off Amount
CMD	\$109,003,000
AMC	\$224,602,000
SDDC	\$41,980,000
MSC	\$1,500,000
Total	\$377,085,000

USTRANSCOM intends to continue annual write offs until an unreserved assertion for IUS is complete. When the unreserved assertion is complete, all balances related to IUS before this point will be written down to zero.

The following was the IUS written off that occurred in FY18 for FY17 IUS activity:

USTRANSCOM Component	FY18 PPA
SDDC	\$ 7,545,000
AMC	\$ 32,336,000
MSC	\$ 0
CMD	\$ 42,208,000
DCD	\$ 0
Total	\$ 82,089,000

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30

(Amounts in thousands)

1. Intragovernmental Liabilities

A. Accounts Payable	\$	0	\$	0
B. Debt		0		0
C. Other		41,119		3,379
D. Total Intragovernmental Liabilities	\$	41,119	\$	3,379

2. Nonfederal Liabilities

A. Accounts Payable	\$	0	\$	0
B. Military Retirement and Other Federal Employment Benefits		17,525		17,134
C. Environmental and Disposal Liabilities		0		0
D. Other Liabilities		44,997		0
E. Total Nonfederal Liabilities	\$	62,522	\$	17,134

3. Total Liabilities Not Covered by Budgetary Resources

\$	103,641	\$	20,513
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4. Total Liabilities Covered by Budgetary Resources

\$	640,938	\$	775,883
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5. Total Liabilities Not Requiring Budgetary Resources

\$	0	\$	0
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6. Total Liabilities

\$	744,579	\$	796,396
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Liabilities not covered by budgetary resources includes liabilities which will require congressional action before budgetary resources can be provided. USTRANSCOM fully expects to receive the necessary resources to cover these liabilities in future years. Other Intragovernmental Liabilities are primarily comprised of Federal Employees' Compensation Act (FECA) liabilities to the Department of Labor and other unfunded employment related liabilities.

Military Retirement and Other Federal Employment Benefits consists of FECA actuarial liabilities not due and payable during the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12.	Accounts Payable
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As of September 30	2018				
	Accounts Payable		Interest, Penalties, and Administrative Fees		Total
(Amounts in thousands)					
1. Intragovernmental Payables	\$	40,178	\$	N/A	\$ 40,178
2. Nonfederal Payables (to the Public)		579,960		0	579,960
3. Total	\$	620,138	\$	0	\$ 620,138

As of September 30	2017				
	Accounts Payable		Interest, Penalties, and Administrative Fees		Total
(Amounts in thousands)					
1. Intragovernmental Payables	\$	86,270	\$	N/A	\$ 86,270
2. Nonfederal Payables (to the Public)		644,393		0	644,393
3. Total	\$	730,663	\$	0	\$ 730,663

Accounts Payable include amounts owed to Federal and nonfederal entities for goods and services received by USTRANSCOM.

Note 13.**Debt**

USTRANSCOM has no Debt.

Note 14.	Environmental and Disposal Liabilities
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USTRANSCOM has no Environmental and Disposal Liabilities.

Note 15.	Other Liabilities
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As of September 30

2018

Current
Liability

Noncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$	0	\$	0	\$	0
B. Deposit Funds and Suspense Account Liabilities		0		0		0
C. Disbursing Officer Cash		0		0		0
D. Judgment Fund Liabilities		0		0		0
E. FECA Reimbursement to the Department of Labor		1,476		1,833		3,309
F. Custodial Liabilities		277		0		277
G. Employer Contribution and Payroll Taxes Payable		1,803		0		1,803
H. Other Liabilities		37,809		0		37,809
I. Total Intragovernmental Other Liabilities	\$	41,365	\$	1,833	\$	43,198

(Amounts in thousands)

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$	17,098	\$	0	\$	17,098
B. Advances from Others		185		0		185
C. Deferred Credits		0		0		0
D. Deposit Funds and Suspense Accounts		0		0		0
E. Temporary Early Retirement Authority		0		0		0
F. Nonenvironmental Disposal Liabilities						
(1) Military Equipment (Nonnuclear)		0		0		0
(2) Excess/Obsolete Structures		0		0		0
(3) Conventional Munitions Disposal		0		0		0
G. Accrued Unfunded Annual Leave		0		0		0
H. Capital Lease Liability		0		0		0
I. Contract Holdbacks		174		0		174

J. Employer Contribution and Payroll Taxes Payable	(1,109)	0	(1,109)
K. Contingent Liabilities	0	1,604	1,604
L. Other Liabilities	45,705	0	45,705
M. Total Nonfederal Other Liabilities	\$ 62,053	\$ 1,604	\$ 63,657
3. Total Other Liabilities	\$ 103,418	\$ 3,437	\$ 106,855

CODOWCF - US Transportation Command

As of September 30	2017		
	Current Liability	Noncurrent Liability	Total

(Amounts in thousands)

1. Intragovernmental

A. Advances from Others	\$ 0	\$ 0	\$ 0
B. Deposit Funds and Suspense Account Liabilities	0	0	0
C. Disbursing Officer Cash	0	0	0
D. Judgment Fund Liabilities	0	0	0
E. FECA Reimbursement to the Department of Labor	1,562	1,817	3,379
F. Custodial Liabilities	9,286	0	9,286
G. Employer Contribution and Payroll Taxes Payable	1,745	0	1,745
H. Other Liabilities	0	0	0
I. Total Intragovernmental Other Liabilities	\$ 12,593	\$ 1,817	\$ 14,410

(Amounts in thousands)

2. Nonfederal

A. Accrued Funded Payroll and Benefits	\$ 14,481	\$ 0	\$ 14,481
B. Advances from Others	165	0	165
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0

(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	1,284	0	1,284
J. Employer Contribution and Payroll Taxes Payable	844	0	844
K. Contingent Liabilities	0	1,166	1,166
L. Other Liabilities	16,137	0	16,137
M. Total Nonfederal Other Liabilities	\$ 32,911	\$ 1,166	\$ 34,077
3. Total Other Liabilities	\$ 45,504	\$ 2,983	\$ 48,487

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

For information on Judgment Fund Liabilities, see Note 16, Commitments and Contingencies.

FECA reimbursement to the Department of Labor represents liabilities due under the Federal Employee Compensation Act. Billed amounts payable in FY 2018 and 2019 and unbilled amounts for both incurred and estimated accrual amounts are included. However, see Note 17, Military Retirement and Other Federal Employment Benefits, for the estimated FECA actuarial liability.

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

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.

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

Contract holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractors/supplier to ensure future performance.

Contingent liabilities include \$1,604,499.20 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 vests 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. USTRANSCOM is under no obligation to pay contractors for amounts in excess of progress payments 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 contractor costs incurred but yet unpaid are estimable, USTRANSCOM has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

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.

Capital Lease Liability

USTRANSCOM has no Capital Leases.

Note 16.	Commitments and Contingencies
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USTRANSCOM is a party in various administrative proceedings and legal actions related to claims for equal opportunity matters and contractual bid protests. USTRANSCOM is not aware of any contingent liabilities for legal actions.

USTRANSCOM is a party in numerous individual contracts that contain clauses, such as award fee payments or award resolution, that may result in future outflow of budgetary resources. Currently, USTRANSCOM's automated system processes have limited capability to capture these potential liabilities; therefore, the amounts reported may not fairly present USTRANSCOM's commitments and contingencies.

Note 17.	Military Retirement and Other Federal Employment Benefits
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As of September 30

2018

Liabilities

(Less: Assets Available to Pay
Benefits)

Unfunded Liabilities

(Amounts in thousands)

1. Pension and Health Benefits

A. Military Retirement Pensions	\$	0	\$	0	\$	0
B. Military Pre Medicare-Eligible Retiree Health Benefits		0		0		0
C. Military Medicare-Eligible Retiree Health Benefits		0		0		0
D. Total Pension and Health Benefits	\$	0	\$	0	\$	0

2. Other Benefits

A. FECA	\$	17,525	\$	0	\$	17,525
B. Voluntary Separation Incentive Programs		0		0		0
C. DoD Education Benefits Fund		0		0		0
D. Other		59		(59)		0
E. Total Other Benefits	\$	17,584	\$	(59)	\$	17,525

3. Total Military Retirement and Other Federal Employment Benefits:

\$	17,584	\$	(59)	\$	17,525
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CODOWCF - US Transportation Command

As of September 30	2017			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities	
(Amounts in thousands)(Amounts in thousands)				
1. Pension and Health Benefits				
A. Military Retirement Pensions	\$ 0	\$ 0	\$	0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0		0
C. Military Medicare-Eligible Retiree Health Benefits	0	0		0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$	0
2. Other Benefits				
A. FECA	\$ 17,134	\$ 0	\$	17,134
B. Voluntary Separation Incentive Programs	0	0		0
C. DoD Education Benefits Fund	0	0		0
D. Other	113	(113)		0
E. Total Other Benefits	\$ 17,247	\$ (113)	\$	17,134
3. Total Military Retirement and Other Federal Employment Benefits:	\$ 17,247	\$ (113)	\$	17,134

CODOWCF - US Transportation Command

(Amounts in thousands)As of September 30	2018				
	Military Retirement Pensions	Military Pre Medicare-Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
(Amounts in thousands)					
Beginning Actuarial Liability	\$ 0	0	0	0	0
Plus Expenses:					
Normal Cost	0	0	0	0	0
Interest Cost	0	0	0	0	0
Plan Amendments	0	0	0	0	0
Experience Losses (Gains)	0	0	0	0	0
Other factors	0	0	0	0	0
Subtotal: Expenses before Losses (Gains) from Actuarial Assumption Changes	0	0	0	0	0
Actuarial losses/ (gains)/ due to:					
Changes in trend assumptions	0	0	0	0	0
Changes in assumptions other than trend	0	0	0	0	0
Subtotal: Losses (Gains) from Actuarial Assumption Changes	0	0	0	0	0
Total Expenses	\$ 0	0	0	0	0
Less Benefit Outlays	0	0	0	0	0
Total Changes in Actuarial Liability	\$ 0	0	0	0	0
Ending Actuarial Liability	\$ 0	0	0	0	0

Federal Employees' Compensation Act (FECA)

USTRANSCOM actuarial liability for workers' compensation benefit is developed by the Department of Labor and is updated at the end of each fiscal year. The liability includes 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 a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year U.S. Treasury notes and bonds.

2017 Interest rate assumptions utilized for discounting were as follows:

- 2.218% in Year 1
- 2.218% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2017 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 CBYs were as follows:

CBY	COLA	CPIM
2017	N/A	N/A
2018	1.22%	3.20%
2019	1.35%	3.52%
2020	1.59%	3.80%
2021	1.99%	3.99%
2022	2.26%	3.91%

[and thereafter]

The model's resulting projections were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2017 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2017 projection to the average pattern for the projections of the most recent three years.

USTRANSCOM's actuarial liability for workers' compensation benefits is developed and provided by Department of Labor at the end of each fiscal year. There is no change on a quarterly basis.

Other Federal Employment Benefits is comprised of additional post-employment benefits due and payable to military personnel.

Note 18.

General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue

As of September 30	2018	2017
(Amounts in thousands)		
Military Retirement Benefits		
1. Gross Cost	\$ 0	\$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	\$ 0	\$ 0
Civil Works		
1. Gross Cost	\$ 0	\$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	\$ 0	\$ 0
Military Personnel		
1. Gross Cost	\$ 0	\$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	\$ 0	\$ 0
Operations, Readiness & Support		
1. Gross Cost	\$ 7,096,176	\$ 6,673,282
2. Less: Earned Revenue	(7,115,375)	(6,757,153)
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	\$ (19,199)	\$ (83,871)
Procurement		
1. Gross Cost	\$ 0	\$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	\$ 0	\$ 0
Total Net Cost	\$ 0	\$ 0
Research, Development, Test & Evaluation		
1. Gross Cost	\$ 0	\$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption		

Changes for Military Retirement Benefits	\$	0	\$	0
Total Net Cost	\$	0	\$	0

Family Housing & Military Construction

1. Gross Cost	\$	0	\$	0
2. Less: Earned Revenue		0		0
3. Losses/(Gains) from Actuarial Assumption				
Changes for Military Retirement Benefits	\$	0	\$	0
Total Net Cost	\$	0	\$	0

Consolidated

1. Gross Cost	\$	7,096,176	\$	6,673,282
2. Less: Earned Revenue		(7,115,375)		(6,757,153)
3. Losses/(Gains) from Actuarial Assumption				
Changes for Military Retirement Benefits	\$	0	\$	0
4. Costs Not Assigned to Programs	\$	0	\$	0
5. (Less: Earned Revenues) Not Attributed to Programs	\$	0	\$	0
Total Net Cost	\$	(19,199)	\$	(83,871)

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of USTRANSCOM that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act. The DoD 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) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 55, "Amending Inter-Entity Cost Provisions."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government.

Public costs and revenues are exchange transactions made between the reporting entity and nonfederal entity.

USTRANSCOM's systems do not track intragovernmental transactions by customer. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between Federal and nonfederal expenses. Intradepartmental revenues and expenses are then eliminated.

USTRANSCOM records transactions on an accrual basis. USTRANSCOM may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information and historical data are made as required by generally accepted accounting principles. These estimates reverse as actual costs or revenues are recorded.

Note 19.	Disclosures Related to the Statement of Changes in Net Position
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The (\$210,937,759) in Other Financing Sources, Other consists primarily of other gains and losses due to the reclassification of intragovernmental transfers in or out without reimbursement for which USTRANSCOM could not determine the trading partners. AMC has noted an amount of \$211M for USSGL 1730 – Buildings, Improvements, and Renovations that cannot be supported. This amount is related to activity occurring before FY10 and research has been exhausted. For FY18 reporting, this balance was written off with offsetting USSGL 7290 – Other Losses.

Note 20.	Disclosures Related to the Statement of Budgetary Resources
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As of September 30	2018	2017
(Amounts in thousands)		
1. Intragovernmental Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid	101,155	0
B. Prepaid/Advanced	0	0
C. Total Intragovernmental	\$ 101,155	\$ 0
2. Nonfederal Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid	1,460,137	0
B. Prepaid/Advanced	34	0
C. Total Nonfederal	\$ 1,460,171	\$ 0
3. Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 1,561,326	\$ 1,249,870
4. Available Borrowing and Contract Authority at the End of the Period	\$ 0	\$ 0

USTRANSCOM reported \$7.8 billion in reimbursable obligations in category B.

The SBR includes intraentity transactions because the statements are presented as combined.

Note 21.	Reconciliation of Net Cost of Operations to Budget
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As of September 30

2018

2017

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

1. Obligations incurred	\$	7,824,474	\$	7,260,880
2. Less: Spending authority from offsetting collections and recoveries (-)		(7,636,029)		(7,613,610)
3. Obligations net of offsetting collections and recoveries	\$	188,445	\$	(352,730)
4. Less: Offsetting receipts (-)		0		0
5. Net obligations	\$	188,445	\$	(352,730)

Other Resources:

6. Donations and forfeitures of property		0		0
7. Transfers in/out without reimbursement (+/-)		75		40,113
8. Imputed financing from costs absorbed by others		15,606		9,967
9. Other (+/-)		(210,938)		(1,037)
10. Net other resources used to finance activities	\$	(195,257)	\$	49,043
11. Total resources used to finance activities	\$	(6,812)	\$	(303,687)

Resources Used to Finance Items not Part of the Net**Cost of Operations:**

12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
12a. Undelivered Orders (-)	\$	(311,456)	\$	(197,744)
12b. Unfilled Customer Orders		(76,912)		526,965
13. Resources that fund expenses recognized in prior Periods (-)		(224)		(761)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		0		0
15. Resources that finance the acquisition of assets (-)		(85,154)		(103,149)
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)		0		0
16b. Other (+/-)		210,863		(39,076)
17. Total resources used to finance items not part of the Net Cost of Operations	\$	(262,883)	\$	186,235
18. Total resources used to finance the Net Cost of Operations	\$	(269,695)	\$	(117,452)

CODOWCF - US Transportation Command

As of September 30	2018	2017
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(Amounts in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

19. Increase in annual leave liability	\$	0	\$	0
20. Increase in environmental and disposal liability		0		0
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0		0
22. Increase in exchange revenue receivable from the public (-)		119,759		(21,185)
23. Other (+/-)		555		34
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	120,314	\$	(21,151)

Components not Requiring or Generating Resources:

25. Depreciation and amortization	\$	26,896	\$	36,130
26. Revaluation of assets or liabilities (+/-)		127,472		13,425
27. Other (+/-)				
27a. Trust Fund Exchange Revenue		0		0
27b. Cost of Goods Sold		43		0
27c. Operating Material and Supplies Used		0		0
27d. Other		(24,228)		5,175
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	130,183	\$	54,730

29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$	250,497	\$	33,579
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30. Net Cost of Operations	\$	(19,198)	\$	(83,873)
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Due to USTRANSCOM's financial system's limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency.

Note 22.

Disclosures Related to Incidental Custodial Collections

USTRANSCOM has no incidental custodial collections.

Funds from Dedicated Collections

Note 24.	Fiduciary Activities
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USTRANSCOM has no Fiduciary Activities.

Note 26.

Disclosure Entities and Related Parties

USTRANSCOM has no material reporting entities and related parties regarding Federally Funded Research and Development Centers (FFRD).

Note 27.	Restatements
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USTRANSCOM has no restatements of prior period adjustments for material errors.